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1 **BEFORE THE ARIZONA CORPORATION**
 2 **COMMISSIONERS** **RECEIVED**

3 MIKE GLEASON, Chairman
 4 JEFF HATCH-MILLER
 5 WILLIAM A. MUNDELL
 6 KRISTIN K. MAYES
 7 GARY PIERCE

2008 OCT 15 P 4: 57

AZ CORP COMMISSION
DOCKET CONTROL

8 IN THE MATTER OF THE
 9 APPLICATION OF ICR WATER USERS
 10 ASSOCIATION, INC. FOR
 11 DETERMINATION OF THE CURRENT
 12 FAIR VALUE OF ITS UTILITY PLANT
 13 AND PROPERTY AND FOR INCREASES
 14 IN ITS RATES AND CHARGES FOR
 15 UTILITY SERVICES

DOCKET NO. W-02824A-07-0388

16 **NOTICE OF FILING ADDITIONAL**
 17 **SUPPLEMENTAL TESTIMONY OF**
 18 **THOMAS J. BOURASSA AND**
 19 **ROBERT M. BUSCH ON BEHALF OF**
 20 **ICR WATER USERS ASSOCIATION**
 21 **TO SUPPORT REQUEST FOR**
 22 **APPROVAL OF WATER SERVICE**
 23 **AGREEMENT**

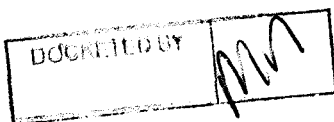
24 ICR Water Users Association Inc. ("ICR" or the "Association"), through its
 25 undersigned counsel, hereby files Notice of Filing Additional Supplemental Testimony of
 26 Thomas J. Bourassa and Robert M. Busch on Behalf of ICR Water Users Association to Support
 27 Request for Approval of Water Service Agreement in connection with the above-captioned
 28 matter.

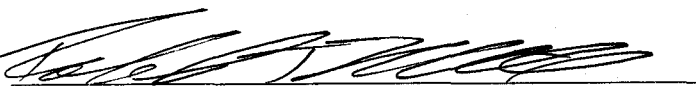
RESPECTFULLY submitted this 15th day of October, 2008.

SNELL & WILMER

Arizona Corporation Commission
DOCKETED

OCT 15 2008




 Jeffrey W. Crockett
 Robert J. Metli
 One Arizona Center
 Phoenix, Arizona 85004-2202
 Attorneys for ICR Water Users Association, Inc.

1 ORIGINAL AND THIRTEEN (13) copies
2 filed this 15th day of October, 2008, with:

3 Docket Control
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6 Phoenix, Arizona 85007

7 COPY of the foregoing hand-delivered
8 this 15th day of October, 2008, to:

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 **COMMISSIONERS**

4 **MIKE GLEASON, Chairman**
5 **JEFF HATCH-MILLER**
6 **WILLIAM A. MUNDELL**
7 **KRISTIN K. MAYES**
8 **GARY PIERCE**

9 **IN THE MATTER OF THE APPLICATION**
10 **OF ICR WATER USERS ASSOCIATION,**
11 **INC. FOR A DETERMINATION OF THE**
12 **CURRENT FAIR VALUE OF ITS UTILITY**
13 **PLANT AND PROPERTY AND FOR**
14 **INCREASES IN ITS RATES AND CHARGES**
15 **FOR UTILITY SERVICES**

DOCKET NO: W-02824A-07-0388

16
17 **ADDITIONAL SUPPLEMENTAL TESTIMONY OF**

18 **THOMAS J. BOURASSA**

19
20 **IN SUPPORT OF WATER SERVICE AGREEMENT**
21 **ON BEHALF OF ICR WATER USERS ASSOCIATION, INC.**

22 **OCTOBER 15, 2008**
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1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THE INSTANT**
6 **CASE?**

7 A. Yes, my direct and rebuttal testimony has already been submitted in support of the
8 ICRWUA Water Users Association ("ICRWUA").

9 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

10 A. I will testify on behalf of ICRWUA in support of ICRWUA's request for approval
11 of the Water Service Agreement ("WSA") entered into on September 12, 2008
12 between ICRWUA, intervener Talking Rock Golf Club, LLC ("TRG"), and some
13 of TRG's affiliates. In addition, I will address the financial impact to ICRWUA's
14 ratepayers if the WSA is not approved.

15 **Q. DID YOU PARTICIPATE IN PREPARATION OF THE WSA?**

16 A. Yes, I assisted ICRWUA by helping to develop a special contract rate for the
17 provision of non-potable (landscape irrigation, lake fill, contraction, etc.) to the
18 Talking Rock development by ICRWUA.

19 **II. SUMMARY OF ASSOCIATION'S SUPPLEMENTAL POSITION**

20 **Q. PLEASE SUMMARIZE THE POSITION OF ICRWUA.**

21 A. ICRWUA has changed its position since its rebuttal filing based on the WSA. It
22 has been suggested that TRG be charged the residential tariff rate for water used on
23 the golf course. Although I will not address the legal implications surrounding this
24 scenario, such a result would likely result in costs that TRG views as prohibitive.
25 In response, I have to believe TRG would be forced to use its own water supply to
26 serve itself. This would result in a significant revenue loss for the water company,
27 which would negatively impact ICRWUA's ratepayers as described below.
28

1 By approving the WSA, the Commission can keep the golf course on
2 ICRWUA's system as a special contract customer allowing ICRWUA to include
3 the revenues contemplated by the WSA in the ratemaking equation. The benefits
4 to ratepayers for having TRG stay on the system and contribute revenue under the
5 WSA are significant. For example, the WSA initially provides for approximately
6 \$175,000 of water service revenues to ICRWUA for the test year, which would
7 replace the \$51,123 of revenue reimbursement paid to ICRWUA and attributed to
8 the test year. This amount does not include approximately \$11,000 of power costs
9 paid annually by TRG but attributable to ICRWUA customers. After accounting
10 for all expenses and revenues contemplated by the WSA, ICRWUA now proposes
11 a total revenue requirement in this case of \$445,855, which includes an 11 percent
12 operating margin. The proposed revenue requirement constitutes an increase in
13 revenues of \$53,905, or 13.75 percent over adjusted Test Year revenues.

14
15 **III. IMPACT OF WSA ON ICRWUA'S REQUEST FOR RATE RELIEF.**

16 **A. Special Contract Rates.**

17 **Q. PLEASE EXPLAIN THE SPECIAL CONTRACT RATES IN THE WSA.**

18 A. Under the WSA, TRG will pay both a System Reservation Charge and a
19 Commodity Charge. The System Reservation Charge will be paid annually for 10
20 years and ICRWUA will receive a total of \$340,000 from this charge over that
21 period. The initial Commodity Charge was calculated at \$1.00 per 1000 gallons of
22 water delivered by ICRWUA to TRG under the WSA; however, the Commodity
23 Charge is subject to an annual adjustment in order to keep pace with cost increases.

24 **Q. WHY DOES THE SYSTEM RESERVATION CHARGE STOP AFTER 10**
25 **YEARS?**

26 A. The System Reservation Charge is intended to help reverse ICRWUA's deplorable,
27 current financial condition and stabilize its revenues. Unlike the Commodity
28 Charge, the System Reservations Charge will be paid annually even if ICRWUA

1 does not deliver any water to TRG under the WSA.

2 **Q. HOW WAS THE COMMODITY CHARGE DETERMINED?**

3 A. The Commodity Charge was developed to allow ICRWUA to recover its cost of
4 service as well as a reasonable reserve margin. To determine the cost of service, I
5 used the cost of service study ("COSS") prepared and submitted with the
6 ICRWUA's rebuttal filing, the power costs paid by TRG during the test year and
7 2007, the amount of water delivered to TRG in the 2006 test year, as well as the
8 water delivered in 2007. From there, I estimated the total costs of service and
9 divided the gallons delivered by the cost of service. With a little rounding, we
10 settled on a \$1.00 per thousand gallons.

11 **Q. CAN YOU DEMONSTRATE THAT THE COMMODITY RATE IS**
12 **DESIGNED TO COVER THE COST OF SERVICE PLUS A RESERVE**
13 **MARGIN?**

14 A. Yes. I prepared a supplemental cost of service study ("Supp. COSS")
15 demonstrating the cost of service for TRG and the operating margin provided by
16 the \$1.00 commodity rate. I will discuss the Supp. COSS later in my testimony.
17 For now, based on the Supp. COSS, the commodity rate alone covers ICRWUA's
18 cost of service for delivering irrigation water to TRG, plus an operating margin of
19 about 11.3 percent. This excludes any consideration of the System Reservation
20 Charge.

21 **Q. YOU TESTIFIED THAT THE COMMODITY CHARGE IS SUBJECT TO**
22 **ADJUSTMENT. PLEASE EXPLAIN.**

23 A. There are three provisions in the WSA for an adjustment. First, the Commodity
24 Charge will be adjusted each year based on the Consumer Price Index or CPI. This
25 adjustment will help to ensure that the charge keeps up with general increases in
26 costs due to inflation. Second, the Commodity Charge is subject to adjustment in
27 the event that new treatment requirements increase ICRWUA's cost of service or in
28 the event treatment costs are necessary to address groundwater contamination.

1 Third, after the 7th year, either party may request that a new cost of service study be
2 conducted and that adjustments to the Commodity Charge be made based on the
3 results of that study.

4 **Q. IF THE COMMODITY CHARGE COVERS IRCWUA'S COST OF**
5 **SERVICE AND IS SUBJECT TO ADJUSTMENT, ISN'T THE SYSTEM**
6 **RESERVATION CHARGE JUST ADDITIONAL REVENUE FOR**
7 **ICRWUA?**

8 A. Yes, as I testified above, the System Reservation Charge is intended to address
9 ICRWUA's poor financial condition by providing it a stable source of additional
10 revenue. As I previously testified in this case, TRG has been subsidizing
11 ICRWUA's service to its residential customers, and by agreeing to this charge, it
12 has agreed to continue the subsidization for another 10 years.

13 **B. Impact on Rate Case.**

14 **Q. HOW DOES THE WSA IMPACT ICRWUA'S REVENUE REQUIREMENT**
15 **IN THIS RATE CASE?**

16 A. Adjusting the Test Year to account for the revenue to be received under the WSA, I
17 determined that ICRWUA would receive \$175,026 of revenues for the test year.
18 The \$175,026 is comprised of the \$50,000 System Reservation Charge and
19 \$125,026 in Commodity Charge based on the Test Year water deliveries to TRG.
20 This revenue replaces the \$51,123 of reimbursement revenue in my prior
21 calculations.

22 **Q. WHY DID YOU ELIMINATE THE REIMBURSEMENT REVENUES**
23 **THAT TRG PAID ICRWUA DURING THE TEST YEAR?**

24 A. Because under the WSA, ICRWUA will take ownership of all three wells and pay
25 all costs, including purchased power. This is further reason for the special contract
26 rate to include a Commodity Charge that recovers ICRWUA's cost of service.

27 **Q. HAVE YOU PREPARED SCHEDULES TO REFLECT THE IMPACT OF**
28 **THE WSA?**

1 A. Yes, I have included several supplemental schedules with this testimony attached
2 hereto as Supplemental Exhibit 1.

3 **Q. PLEASE SUMMARIZE ICRWUA'S SUPPLEMENTAL SCHEDULES.**

4 A. ICRWUA is proposing a revenue requirement of \$445,855 which constitutes a
5 revenue increase of \$43,905, or 13.75 percent, over adjusted test year revenues.
6 The proposed revenue requirement will provide an operating margin of 11 percent.

7 **Q. PLEASE EXPLAIN THE COMPANY'S SUPPLEMENTAL SCHEDULES.**

8 A. Starting with the A-1 schedule, it shows the revised computation of the revenue
9 requirement. Schedule A-1 starts with the adjusted operating income and shows
10 the required revenue increase based on the required operating income.

11 The C-1 schedule shows the adjusted operating results and starts with
12 ICRWUA's rebuttal adjusted revenues and expenses.

13 **Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF C-1 SCHEDULE.**

14 A. The C-1 schedule shows the adjustments to operating expenses. The details of the
15 adjustments are shown on the C-2 schedules, pages 1 through 4. The adjustments
16 are as follows:

17 Adjustment number 1 removes golf course expense reimbursement revenues
18 of \$51,123 from miscellaneous revenues. I explained this above in my testimony.

19 Adjustment number 2 increases purchased power costs to reflect the
20 additional purchased power associated with the Talking Rock system which was
21 paid by the golf course during the test year and not previously included in
22 operating expenses.

23 Adjustment number 3 increases property taxes to reflect proposed rates.

24 Adjustment number 4 increases revenues to reflect the increased Test Year
25 revenues associated with the WSA.

26 Adjustment number 5 increases rate case expense. ICRWUA is now
27 requesting an increase in rate case expense of \$150,000 amortized over 5 years, or
28 \$30,000 annually. In its initial filing, ICRWUA requested rate case expense of

1 \$60,000 amortized over 3 years, or \$20,000 annually.

2 **Q. WHY IS ICRWUA REQUESTING AN INCREASE IN RATE CASE**
3 **EXPENSE AT THIS TIME?**

4 A. Because the cost of this case have far exceeded the initial request. As of
5 September 2008, ICRWUA had expended nearly \$250,000. With more rounds of
6 testimony, a hearing, briefs, and an open meeting before the Commission yet to be
7 completed, ICRWUA estimates to expend nearly \$300,000. Even with TRG's
8 reimbursement of \$30,000 upon execution of the WSA, and the potential for
9 further reimbursement of \$50,000 from TRG if the WSA is approved, , ICRWUA's
10 request is far less than it will actually spend. Frankly, ICRWUA cannot afford to
11 absorb the additional rate case expense it has incurred without recovery.

12 **Q. THEN WHY DOESN'T ICRWUA PROPOSE RECOVERY OF THE TOTAL**
13 **RATE CASE EXPENSE LESS THE AMOUNT REIMBURSED BY TRG**
14 **AND ITS AFFILIATES?**

15 A. It certainly could. The proposal of \$150,000 (rather than \$200,000+) and an
16 amortization period of 5 years (rather than 3 years) were chosen to minimize the
17 impact on rates at this time to the greatest extent possible.

18 **A. Supplemental Cost of Service Study.**

19 **Q. PLEASE DISCUSS THE SUPPLEMENTAL COST OF SERVICE STUDY**
20 **YOU TESTIFIED THAT YOU HAVE PREPARED BASED ON THE NEW**
21 **WSA FOR ICRWUA'S SUPPLEMENTAL FILING?**

22 A. The G schedules reflect a cost of service study based on ICRWUA's A-1 and C-1
23 schedules. The G-1 and the G-2 schedules provide the revenues, expenses, and
24 operating margin for each meter class (size).

25 **Q. DOES THE SUPPLEMENTAL COST OF SERVICE STUDY USE THE**
26 **SAME METHODOLOGY AS THE ONE YOU PREPARED FOR**
27 **ICRWUA'S REBUTTAL FILING?**

28 A. Yes. The difference between ICRWUA's rebuttal COSS and the Supp. COSS is

1 that the revenues and expenses are updated to those reflected in the supplemental
2 C-1 schedule. For a full discussion on the nature and purpose of a cost of service
3 study and how it was prepared in the instant case, please see my supplemental
4 rebuttal testimony at pages 9 through 29.

5 **Q. WHAT CONCLUSIONS HAVE YOU MADE BASED ON THE**
6 **SUPPLEMENTAL COST OF SERVICE STUDY?**

7 A. I have made two primary conclusions. First, the initial commodity rate of \$1.00
8 covers the cost of service for TRG for irrigation and lake fill during the test year
9 plus a reserve margin of about 11.3 percent. Second, from a cost of service
10 perspective and considering the System Reservation Charge, TRG is still
11 subsidizing the 5/8 inch metered customers. In fact, the 5/8 inch metered
12 customers are paying far less than their cost of service under both present and
13 proposed rates.

14 **Q. ON WHAT BASIS DO YOU CONCLUDE THE COMMODITY CHARGE**
15 **COVERS THE COST OF SERVICE PLUS A RESERVE MARGIN?**

16 A. As shown on supplemental Schedule G-2 at line 12, TRG's total cost of service is
17 \$110,543. During the test year, TRG water deliveries totaled 125,026 gallons (in
18 1,000's). Using a commodity rate of \$1.00 per 1,000 gallons, the commodity
19 revenues would total \$125,026. The excess of revenue over expenses is \$14,169
20 (\$125,026 minus \$110,857 as shown on Schedule G-2, page 1). As a result, the
21 operating margin is approximately 11.3 percent (\$14,169 divided by \$125,026).

22 **Q. PLEASE EXPLAIN THE BASIS FOR YOUR CONCLUSION THAT TRG IS**
23 **SUBSIDIZING THE 5/8 INCH METER CUSTOMER CLASS.**

24 A. The overall operating margin requested in ICRWUA'S supplemental filing is 11
25 percent. From a cost of service perspective, in order to achieve the overall
26 operating margin 11 percent, ideally each customer classe should provide about an
27 11 percent operating margin. In the instant case, that is not so. Under the proposed
28 rates, some customer classes provide an operating margin far less than 11 percent

1 and other customer classes provide for an operating margin far more than 11
2 percent. This results in subsidization of one or more customer classes. As shown
3 on G-2, the operating margins provided by TRG under present and proposed rates
4 are 38.46 percent and 36.94 percent, respectively. The operating margins provided
5 by the 5/8 inch metered customers under present and proposed rates are -44.75
6 percent and -18.15 percent, respectively.

7 **Q. IS THE COST OF SERVICE STUDY DEFFICIENT BECAUSE IT DOES**
8 **NOT CAPTURE ALL THE COSTS FOR THE TALKING ROCK SYSTEM?**

9 A. No. Based upon my inquiries with ICRWUA, all the relevant costs for operating
10 the Talking Rock System for the test year were recorded during the test year and
11 thus, have been captured in my COSS. Additional plant to serve future customers
12 that was not recorded to plant-in-service by the end of the test year would impact
13 the COSS. On the other hand, if the cost of the wells transferred to ICRWUA
14 under the WSA is treated as advances in-aid-of construction ("AIAC"), then
15 depreciation will be impacted. However, depreciation is primarily allocated based
16 on demand and the cost of service for TRG would see less than 10 percent of the
17 depreciation impact. If the cost of the wells is treated as contribution-in-aid of
18 construction ("CIAC"), there would be no impact on depreciation expense. In
19 either case, how the well costs are treated would not change my conclusions based
20 on the Supp. COSS with respect to subsidization by TRG of ICRWUA customers.

21 Operating expenses will change over time. However, the WSA has a
22 provision to adjust the commodity rate in the future based on a COSS. In the
23 meantime, the WSA has a provision to increase the commodity rate annually based
24 upon changes to the CPI. This, and the fact that TRG is providing a very high
25 operating margin now, (nearly 37 percent including the system reservation charge)
26 provides a reasonable expectation that the level of revenues from TRG will exceed
27 its cost of service for sometime into the future – at least until another COSS is
28 prepared and the commodity rate reset.

1 **Q. WHAT IF NEW PLANT IS ADDED TO SERVE CUSTOMERS IN THE**
2 **FUTURE, WOULDN'T DEPRECIATION BE IMPACTED?**

3 A. Yes, if the plant were funded by ICRWUA or funded by refundable AIAC.
4 However, if none of the additional plant is used to serve TRG, then there would be
5 no impact on TRG's cost of service, but rather on the customer classes for which
6 the new plant is used to provide service. It is my understanding that no additional
7 plant, other than the wells, is necessary to serve TRG – at least for the foreseeable
8 future. Thus, as I testified above, the cost of service for TRG should not change
9 significantly, if at all, with respect to depreciation. If new plant is added to serve
10 TRG between now and another COSS, the impact on the cost of service will be
11 captured in that study.

12 **Q. WHY NOT HAVE THE COMMODITY RATE BASED ON ANNUAL**
13 **ACTUAL OPERATING COSTS AND ADJUSTED EACH YEAR UNDER**
14 **THE WSA?**

15 A. For three reasons. First and foremost, the intent was to keep the computation
16 simple and easy to understand so as to allow for timely adjustment of the
17 Commodity Rate, timely recovery of revenues, and to avoid disputes on the annual
18 computation. Second, it would be costly to prepare a COSS annually. The
19 preparation costs would likely outweigh the benefits. Third, the additional record
20 keeping with respect to "shared" costs would place additional administrative
21 burden on ICRWUA – both in cost and in time. Again, the higher costs and
22 additional time spent would potentially outweigh the benefits.

23 **Q. IS THE \$1.00 COMMODITY RATE STALE BECAUSE IT IS BASED ON**
24 **2006 COSTS?**

25 A. That is a potential problem if we get too far outside the test year before the WSA is
26 approved by the Commission and implemented. This is because the base year for
27 the CPI would be further removed from the test year. A similar problem exists
28 with the proposed rates in the instant case. The proposed rates (either from Staff or

1 ICRWUA) are based on a 2006 test year. However, this concern with respect to
2 the commodity rate is mitigated by the fact that the \$1.00 will be adjusted for
3 changes to the CPI. So in the future, the commodity rate will be adjusted upward.
4 The advantage of the WSA is that ICRWUA does not have to wait for another
5 lengthy rate case for the commodity rate to be adjusted upward. In fact, it will be
6 adjusted annually, unlike typical tariffed rates which means there is no regulatory
7 lag.

8 **IV. IMPACT OF ICRWUA LOSING REVENUES FROM TRG**

9 **Q. WHAT WOULD BE THE FINANCIAL IMPACT TO RATEPAYERS IF**
10 **TRG WAS FORCED TO LEAVE ICRWUA'S WATER SYSTEM?**

11 A. To achieve the same operating income as ICRWUA has proposed as of this
12 supplemental filing, or \$49,044, a 13.14 percent operating margin is required and a
13 revenue increase of \$156,043 is necessary. The revenue increase over the
14 proforma adjusted revenues is nearly 72 percent compared to the 13.75 percent
15 proposed by the ICRWUA. To illustrate, I have prepared supplemental proforma
16 Schedules A-1, C-1 and C-2, attached hereto as Supplemental Exhibit 2.

17 **Q. PLEASE EXPLAIN YOUR ANALYSIS.**

18 A. My proforma analysis assumes the revenues provided by TRG (for golf course
19 water) to ICRWUA are eliminated from revenues, and power costs currently paid
20 for by TRG on behalf of ICRWUA customers are included in operating expenses.
21 It also assumes that the revenue increase required would be necessary to achieve a
22 required operating income equal to the required operating income of \$49,044 on
23 Supplemental Schedule A-1.

24 **Q. PLEASE EXPLAIN THE PROFORMA SCHEDULE C-1 AND THE**
25 **ADJUSTMENTS MADE TO DETERMINE THAT THE OPERATING**
26 **INCOME WITHOUT THE GOLF COURSE REVENUE IS A NEGATIVE**
27 **\$107,017.**

28 A. The proforma Schedule C-1 shows the adjusted revenues and expenses without

1 TRG. The proforma C-1 schedule starts with the adjusted test year revenues and
2 expenses per ICRWUA's Supplemental Schedule C-1. The supplemental adjusted
3 revenues, operating expenses, and operating income are \$391,950, \$396,811, and
4 \$(4,861), respectively.

5 Next, proforma revenue and expense adjustments to reflect the revenues and
6 operating expenses without TRG are shown. The resulting proforma adjusted
7 revenues, operating expenses, and operating income are \$216,924, \$323,941, and
8 \$(107,017), respectively. The details of the adjustments are shown on the
9 proforma Schedule C-2, pages 1 through 3 and are as follows:

- 10 1. Adjustment number 1 removes the proposed WSA revenues under
11 the WSA.
- 12 2. Adjustment number 2 removes purchased power costs attributed to
13 TRG.
- 14 3. Adjustment number 3 adjusts property taxes based on proforma
15 revenues.

16
17 **V. RATE DESIGN (H SCHEDULES)**

18 **Q. WHAT ARE ICRWUA'S PROPOSED RATES AT THIS STAGE OF THE**
19 **PROCEEDING?**

20 **A.** The Company's proposed monthly minimums (all customer classes) are:

| <u>Meter Size</u> | <u>Monthly Minimum</u> | <u>Gallons included in Monthly Minimum</u> |
|-----------------------|----------------------------|--|
| 5/8 | \$ 21.50 | 0 |
| 3/4 | \$ 32.25 | 0 |
| 1 | \$ 53.75 | 0 |
| 1 1/2 | \$ 107.50 | 0 |
| 2 | \$ 172.00 | 0 |
| 3 | \$ 344.00 | 0 |

| | | | |
|---|---|------------|---|
| 1 | 4 | \$ 537.50 | 0 |
| 2 | 6 | \$1,075.00 | 0 |

3 The commodity charges and tiers by meter size (all customer classes) are:

| | | | |
|----|--------------|-----------------------|--------------------------|
| 4 | | | |
| 5 | <u>Meter</u> | | <u>Charge</u> |
| 6 | <u>Size</u> | <u>Tier (gallons)</u> | <u>per 1,000 gallons</u> |
| 7 | 5/8 and 3/4 | 1 to 4,000 | \$ 2.66 |
| 8 | | 4,001 to 9,000 | \$ 3.41 |
| 9 | | Over 9,000 | \$ 4.41 |
| 10 | 1 | 1 to 22,500 | \$ 3.41 |
| 11 | | Over 22,500 | \$ 4.41 |
| 12 | 1 1/2 | 1 to 45,000 | \$ 3.41 |
| 13 | | Over 45,000 | \$ 4.41 |
| 14 | 2 | 1 to 72,000 | \$ 3.41 |
| 15 | | Over 72,000 | \$ 4.41 |
| 16 | 3 | 1 to 144,000 | \$ 3.41 |
| 17 | | Over 144,000 | \$ 4.41 |
| 18 | 4 | 1 to 225,000 | \$ 3.41 |
| 19 | | Over 225,000 | \$ 4.41 |
| 20 | 6 | 1 to 450,000 | \$ 3.41 |
| 21 | | Over 450,000 | \$ 4.41 |

22 The proposed standpipe rate and bulk water rate is \$4.41 per 1,000 gallons.

23 **Q. WHAT IS THE RATE IMPACT ON RESIDENTIAL CUSTOMERS USING**
 24 **THE MONTHLY AVERAGE WATER USAGE?**

25 **A.** As shown on Schedule H-4, page 1, customers on 5/8 meters who consume the
 26 average quantity of water (7,085 gallons per month) will experience a rate increase
 27 of \$5.62 per month, or an increase of approximately 15.18 percent.
 28

1 **VI. CRITICISM OF STAFF'S APPROACH, REVENUE REQUIREMENT, AND**
2 **REQUIRED RATE INCREASE**

3 **Q. PLEASE BRIEFLY DESCRIBE STAFF'S APPROACH, REVENUE**
4 **REQUIREMENT AND PROPOSED RATE INCREASE SET FORTH IN**
5 **STAFF'S AMENDED DIRECT TESTIMONY?**

6 A. Under the approach, as set forth in Staff's amended testimony, Staff imputes
7 revenues based their proposed rates totaling \$114,290 for the gallons delivered to
8 the golf course from the well the ICRWUA owned during the test year. For water
9 pumped and delivered from the wells the golf course owned during the test year,
10 Staff effectively imputes \$30,386 of reimbursement revenues. To accomplish this,
11 Staff leaves the \$51,123 of reimbursement revenues for the test year in
12 miscellaneous revenues and increases operating expenses by \$20,737. Again, this
13 approach effectively imputes \$30,386 of reimbursement revenues (\$51,123 minus
14 \$20,737).

15 Staff is proposing a revenue requirement of \$382,389 and operating income
16 of \$35,605 based on a required operating margin of 9.31% (See Staff Amended
17 Schedule CRM-1) and no overall rate increase in revenues.

18 **Q. DIDN'T STAFF PREVIOUSLY AGREE ON THE REQUIRED**
19 **OPERATING MARGIN OF 15 PERCENT PRODUCING AN OPERATING**
20 **INCOME OF APPROXIMATELY \$53,500?**

21 A. Yes. Both Staff and ICRWUA were essentially in agreement on a 15 percent
22 operating margin and operating income of approximately \$53,500. (Compare the
23 15.01% operating margin and \$53,540 as shown on Staff direct schedule CRM-1
24 and the 15.00% operating margin and operating income of \$53,489 on the
25 Company's rebuttal schedule A-1.) Staff previously found a 15% operating margin
26 in this case was appropriate but now recommends less than 10%. See Direct
27 Testimony of Charles R. Myhlhousen ("Myhlhousen Dt.") at 7 and Amended
28 Testimony of Charles R. Myhlhousen ("Myhlhousen Amd. Dt.") at 6.

1 **Q. WHY HAS STAFF LOWERED THE REQUIRED OPERATING INCOME**
2 **TO \$35,605 OR A 9.31 PERCENT OPERATING MARGIN?**

3 A. I can only speculate. Staff did not explain its reasoning. Staff only stated that an
4 operating margin between 9 and 14 percent was appropriate. Myhlhousen Amd.
5 Dt. at 6. In my experience a minimum of 10% operating margin is used for small
6 non-profit utilities. Putting that aside, in my opinion, the reason for the lower
7 operating income was to achieve a specific result – no revenue increase. In other
8 words, it is result driven.

9 **Q. WHAT CRITICISMS DO YOU HAVE OF STAFF'S AMENDED FILING**
10 **APPROACH?**

11 A. I have two primary criticisms. First, I disagree with Staff on imputed
12 reimbursement expenses of \$30,378 primarily because this level of revenues
13 assumes that the reimbursement provisions would apply if TRG paid tariff rates.
14 The reimbursement provisions of the agreement in place during the test year
15 contemplated reimbursement based on water used from ICR owned wells. All
16 other water was subject to a wheeling fee. If TRG uses no water from the ICR
17 owned well, there would be zero expense reimbursement. Under an assumption
18 that TRG pays tariff rates for water from the ICR owned well, I believe those
19 provisions would no longer apply. After all, paying a tariff rate implies that the
20 tariff charge includes all costs of delivery of water. Consequently, in my opinion,
21 TRG would merely pay a wheeling fee for water pumped from the golf course
22 owned wells and delivered to TRG. Based on the wheeling fee in effect during the
23 test year of \$11.35 per acre foot and 271.5 acre feet delivered (88,482 gallons (in
24 1,000's) or 125,026 gallons (in 1,000's) delivered to TRG less 36,544 gallons (in
25 1,000's) subject to tariff rates, as shown on Staff schedule CRM-24), the revenue
26 that should be imputed to ICR would be \$3,082 (\$11.35 per acre foot times 271.5
27 acre feet), not \$30,378.

28 The second criticism I have is that Staff ignores purchased power costs paid

1 for by TRG during the test year which included power costs for water pumped
2 from the well owned by ICRWUA during the test year. If the golf course is
3 assumed to pay tariff rates for the water supplied by the Company owned well,
4 then those costs should be included in operating expenses. Further, all pumping
5 power costs associated with water delivery to other ICRWUA customers should
6 also be included in operating expenses. During the test year, TRG paid
7 approximately \$79,492 of pumping power costs for the well field and pump
8 stations on the Talking Rock side of the water system (including \$6,771 for the
9 Adobe pump station which does not serve the golf course). None of these costs
10 were reflected in the operating expenses of ICRWUA. Using the gallons shown on
11 Staff amended filing schedule CRM-23 and CRM-24 for the gallons pumped from
12 the well owned by the ICRWUA during the test year of 60,385 thousand gallons
13 and total gallons pumped from all three wells of 148,867 thousand gallons, the
14 pumping power costs (including the Adobe pump station) which should be
15 included in operating expenses is \$36,273 (\$72,271 divided by 148,867 thousand
16 gallons times 60,385 thousand gallons plus \$6,771 for the Adobe pump station).

17 **Q. HAVE YOU PREPARED AN EXHIBIT ILLUSTRATING THE APPROACH**
18 **YOU WOULD HAVE TAKEN BASED ON YOUR CRITICISMS OF**
19 **STAFF'S APPROACH?**

20 **A.** Yes. Attached hereto as Supplemental Exhibit 3 are proforma A-1, C-1, and C-2
21 schedules illustrating what I believe is the correct approach, as described above.
22 Assuming a 9.83% operating margin, \$114,290 of imputed tariff revenues, \$3,082
23 of wheel fee revenues rather than the implied \$30,378 of reimbursement revenues,
24 \$36,273 of additional power costs, and the change to property taxes, the required
25 revenue increase would have been \$44,216, or 13.23% over adjusted test year
26 revenues. Compare this to Staff's recommendation of no rate increase.

1 Q. DOES THAT CONCLUDE YOUR ADDITIONAL SUPPLEMENTAL
2 TESTIMONY?

3 A. Yes
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SUPPLEMENTAL EXHIBIT 1

ICR Water Users Association
Test Year Ended December 31, 2006
Computation of Increase in Gross Revenue
Requirements As Adjusted

Supplemental Exhibit 1
Schedule A-1
Page 1
Witness: Bourassa

Line
No.

| | | | |
|----|---|----|-----------|
| 1 | Fair Value Rate Base | \$ | (576,986) |
| 2 | | | |
| 3 | Adjusted Operating Income | | (4,861) |
| 4 | | | |
| 5 | Current Rate of Return | | N/A |
| 6 | | | |
| 7 | Required Operating Income Operating Margin = 11.00% | \$ | 49,044 |
| 8 | | | |
| 9 | Required Rate of Return on Fair Value Rate Base | | N/A |
| 10 | | | |
| 11 | Operating Income Deficiency | \$ | 53,905 |
| 12 | | | |
| 13 | Gross Revenue Conversion Factor | | 1.0000 |
| 14 | | | |
| 15 | Increase in Gross Revenue | | |
| 16 | Requirement | \$ | 53,905 |
| 17 | | | |
| 18 | % Increase over Adjusted Revenues | | 13.75% |
| 19 | | | |
| 20 | | | |

| Customer Classification | Present Rates | Proposed Rates | Dollar Increase | Percent Increase |
|--|-------------------|-------------------|--------------------|---------------------|
| <u>(Residential Commercial, Irrigation)</u> | | | | |
| 5/8 x 3/4 Inch Residential | \$ 148,282 | \$ 182,257 | \$ 33,975 | 22.91% |
| 3/4 Inch Residential | - | - | - | 0.00% |
| 1 Inch Residential | 15,942 | 19,286 | 3,344 | 20.98% |
| 2 Inch Residential | 39,929 | 53,594 | 13,665 | 34.22% |
| Construction Water | 417 | 829 | 412 | 98.73% |
| | | | - | 0.00% |
| Revenue Annualization | 9,738 | 12,503 | 2,766 | 28.40% |
| Subtotal | \$ 214,308 | \$ 268,470 | \$ 54,161 | 25.27% |
| Other Water Revenues | 177,306 | 177,306 | - | 0.00% |
| Reconciling Amount to C-1 | 335 | 79 | (256) | -76.42% |
| Total of Water Revenues (a) | \$ 391,950 | \$ 445,855 | \$ 53,905 | 13.75% |

38
39
40 SUPPORTING SCHEDULES:
41 Rebuttal B-1
42 Supplemental Schedule C-1
43

ICR Water Users Association
Test Year Ended December 31, 2006
Income Statement

Supplemental Exhibit 1
Schedule C-1
Page 1
Witness: Bourassa

| Line No. | ADJUSTMENT LABEL--> | 1 | 2 | 3 | 4 | 5 | Supplemental Adjusted Results | Required Rate Increase | Required with Rate Increase |
|----------|---------------------|-------------|-----------------------------|----------------|---|-------------------|-------------------------------|------------------------|-----------------------------|
| | | | | | | | | | |
| | | Revenues | Remove Golf Course Revenues | Property Taxes | Revenues from New Water Service Agreement | Rate Case Expense | | | |
| 1 | | | | | | | | | |
| 2 | | \$ 214,643 | | | | | \$ 214,643 | \$ 53,905 | \$ 268,548 |
| 3 | | | | | | | | | |
| 4 | | \$ 53,403 | | | \$ 175,026 | | \$ 177,306 | | \$ 177,306 |
| 5 | | \$ 268,047 | \$ (51,123) | \$ - | \$ 175,026 | | \$ 391,950 | \$ 53,905 | \$ 445,855 |
| 6 | | | | | | | | | |
| 7 | | \$ - | | | | | \$ - | \$ - | \$ - |
| 8 | | 6,388 | | | | | 6,388 | | 6,388 |
| 9 | | 16,239 | | | | | 95,731 | | 95,731 |
| 10 | | | 79,492 | | | | | | |
| 11 | | | | | | | | | |
| 12 | | 2,516 | | | | | 2,516 | | 2,516 |
| 13 | | 4,029 | | | | | 4,029 | | 4,029 |
| 14 | | 14,389 | | | | | 14,389 | | 14,389 |
| 15 | | 1,720 | | | | | 1,720 | | 1,720 |
| 16 | | 32,549 | | | | | 32,549 | | 32,549 |
| 17 | | 513 | | | | | 513 | | 513 |
| 18 | | 86,227 | | | | | 86,227 | | 86,227 |
| 19 | | | | | | | | | |
| 20 | | 3,600 | | | | | 3,600 | | 3,600 |
| 21 | | | | | | | | | |
| 22 | | | | | | | | | |
| 23 | | 751 | | | | | 751 | | 751 |
| 24 | | 8,995 | | | | | 8,995 | | 8,995 |
| 25 | | 20,000 | | | | 10,000 | 30,000 | | 30,000 |
| 26 | | | | | | | | | |
| 27 | | 235 | | | | | 235 | | 235 |
| 28 | | 93,748 | | | | | 93,748 | | 93,748 |
| 29 | | 11,160 | | 4,214 | | | 15,374 | | 15,374 |
| 30 | | | | | | | | | |
| 31 | | | | | | | | | |
| 32 | | 45 | | | | | 45 | | 45 |
| 33 | | \$ 303,105 | \$ - | \$ 79,492 | \$ 4,214 | \$ - | \$ 396,811 | \$ - | \$ 396,811 |
| 34 | | \$ (35,058) | \$ (51,123) | \$ (79,492) | \$ (4,214) | \$ (10,000) | \$ (4,861) | \$ 53,905 | \$ 49,044 |
| 35 | | | | | | | | | |
| 36 | | 180 | | | | | 180 | | 180 |
| 37 | | 779 | | | | | 779 | | 779 |
| 38 | | | | | | | | | |
| 39 | | | | | | | | | |
| 40 | | \$ 959 | \$ - | \$ - | \$ - | \$ - | \$ 959 | \$ - | \$ 959 |
| 41 | | \$ (34,099) | \$ (51,123) | \$ (79,492) | \$ (4,214) | \$ (10,000) | \$ (3,902) | \$ 53,905 | \$ 50,003 |
| 42 | | | | | | | | | |
| 43 | | | | | | | | | |
| 44 | | | | | | | | | |

RECAP SCHEDULES:
Supplemental A-1

SUPPORTING SCHEDULES:
Rebuttal C-1

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 1

Supplemental Exhibit 1
Schedule C-2
Page 1
Witness: Bourassa

| Line No. | | |
|-------------|--|--------------------|
| 1 | <u>Remove Golf Course Revenues (replaced by new Water Service Agreement)</u> | |
| 2 | | |
| 3 | | |
| 4 | Golf Course Reimbursement Revenues | \$ 51,123 |
| 5 | | |
| 6 | | |
| 7 | Adjustment to Revenues/Expenses | <u>\$ (51,123)</u> |
| 8 | | |
| 9 | | |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Supplemental Exhibit 1
Schedule C-2
Page 2
Witness: Bourassa

Line
No.

| | | |
|----|---|------------------|
| 1 | <u>Purchased Power Costs Paid By Talking Rock Golf Course and to be paid by ICR</u> | |
| 2 | <u>under new Water Service Agreement</u> | |
| 3 | | |
| 4 | TRR Pumping Station | \$ 34,241 |
| 5 | TRR Well Field | 38,480 |
| 6 | Double Adobe Station | 6,771 |
| 7 | | |
| 8 | Total Power Costs Paid By Golf Course | <u>\$ 79,492</u> |
| 9 | | |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | Adjustment to Revenues/Expenses | <u>\$ 79,492</u> |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Supplemental Exhibit 1
Schedule C-2
Page 3
Witness: Bourassa

| Line No. | | |
|-------------|--|------------|
| 1 | <u>Adjust Property Taxes to Reflect Proposed Revenues:</u> | |
| 2 | | |
| 3 | Adjusted Revenues in year ended 12/31/2006 | \$ 391,950 |
| 4 | Adjusted Revenues in year ended 12/31/2006 | 391,950 |
| 5 | Proposed Revenues | 445,855 |
| 6 | | |
| 7 | Average of three year's of revenue | \$ 409,918 |
| 8 | Average of three year's of revenue, times 2 | \$ 819,836 |
| 9 | Add: | |
| 10 | Construction Work in Progress at 10% | \$ - |
| 11 | Deduct: | |
| 12 | Book Value of Transportation Equipment | - |
| 13 | | |
| 14 | Full Cash Value | \$ 819,836 |
| 15 | Assessment Ratio | 23.50% |
| 16 | Assessed Value | 192,661 |
| 17 | Property Tax Rate | 7.9800% |
| 18 | | |
| 19 | Property Tax | 15,374 |
| 20 | Tax on Parcels | 0 |
| 21 | | |
| 22 | Total Property Tax at Proposed Rates Rebuttal | \$ 15,374 |
| 23 | Property Taxes per Direct Filing | 11,160 |
| 24 | Change in Property Taxes | \$ 4,214 |
| 25 | | |
| 26 | | |
| 27 | Adjustment to Revenues and/or Expenses | \$ 4,214 |
| 28 | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 4

Supplemental Exhibit 1
Schedule C-2
Page 4
Witness: Bourassa

Line
No.

| | | |
|----|---|-------------------|
| 1 | <u>Proposed Misc. Revenues from Golf Course under new Water Service Agreement</u> | |
| 2 | | |
| 3 | Annual Base Charge | \$ 50,000 |
| 4 | Annual Commodity Charge | <u>125,026</u> |
| 5 | Total | <u>\$ 175,026</u> |
| 6 | | |
| 7 | | |
| 8 | | |
| 9 | Adjustment to Revenues and/or Expenses | <u>\$ 175,026</u> |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 5

Supplemental Exhibit 1
Schedule C-2
Page 5
Witness: Bourassa

| Line No. | | |
|-------------|--|------------------|
| 1 | <u>Rate Case Expense</u> | |
| 2 | | |
| 3 | Proposed Rate Case Expense | \$ 150,000 |
| 4 | Amortization Period (years) | 5 |
| 5 | Annual Amortization | \$ 30,000 |
| 6 | | |
| 7 | Rebuttal Proposed Amortization Expense | <u>\$ 20,000</u> |
| 8 | | |
| 9 | Increase in Rate case Amortization Expense | \$ 10,000 |
| 10 | | |
| 11 | | |
| 12 | Adjustment to Revenues and/or Expenses | <u>\$ 10,000</u> |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |
| 21 | | |
| 22 | | |
| 23 | | |

ICR Water Users Association
Revenue Summary
Test Year Ended December 31, 2006

Supplemental Exhibit 1
Schedule H-1
Page 1
Witness: Bourassa

| Line No. | Customer Classification and/or Meter Size | Total Revenues at | | Total Revenues at | | Dollar Change | Percent Change |
|----------|---|-------------------|------------|-------------------|----|------------------|--------------------|
| | | Present Rates | \$ | Proposed Rates | \$ | | |
| 1 | 5/8 x 3/4 Inch Residential | \$ 148,282 | \$ | 182,257 | \$ | 33,975 | 22.91% |
| 2 | 3/4 Inch Residential | - | - | - | - | - | 0.00% |
| 3 | 1 Inch Residential | 15,942 | 19,286 | 3,344 | | | 20.98% |
| 4 | 2 Inch Residential | 39,929 | 53,594 | 13,665 | | | 34.22% |
| 5 | Construction Water | 417 | 829 | 412 | | | 98.73% |
| 6 | | | | | | | |
| 7 | Subtotals of Revenues | \$ 204,571 | \$ 255,966 | \$ 51,396 | | | 25.12% |
| 8 | | | | | | | |
| 9 | Other Water Revenues | 177,306 | 177,306 | - | | | 0.00% |
| 10 | | | | | | | |
| 11 | | | | | | | |
| 12 | Subtotals of Revenues | \$ 381,877 | \$ 433,273 | \$ 51,396 | | | 13.46% |
| 13 | Revenue Annualizations: | | | | | | |
| 14 | 5/8 Inch Residential | \$ 1,547 | \$ 1,767 | \$ 220 | | | 14.21% |
| 15 | 3/4 Inch Residential | - | - | - | | | 0.00% |
| 16 | 1 Inch Residential | 1,344 | 1,539 | 196 | | | 14.56% |
| 17 | 2 Inch Residential | 6,847 | 9,197 | 2,350 | | | 34.32% |
| 18 | Construction Water | - | - | - | | | 0.00% |
| 19 | | - | - | - | | | 0.00% |
| 20 | Subtotal Revenue Annualization | 9,738 | 12,503 | 2,766 | | | 28.40% |
| 21 | | | | | | | |
| 22 | Reconciling Amt to C-1 | 335 | 79 | (256) | | | -76.42% |
| 23 | | | | | | | |
| 24 | Total Revenues Per Bill Count | \$ 391,950 | \$ 445,855 | \$ 53,905 | | | 13.75% |
| 25 | With Annualization | | | | | | |
| | | | | | | Additional Bills | Additional Gallons |
| | | | | | | 51 | 15,439 |
| | | | | | | - | - |
| | | | | | | 26 | 113,976 |
| | | | | | | 17 | 1,508,161 |
| | | | | | | - | - |
| | | | | | | 94 | 1,637,576 |

ICR Water Users Association
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2006

Supplemental Exhibit 1
 Schedule H-2
 Page 1
 Witness: Bourassa

| Line No. | Customer Classification and/or Meter Size | (a) Average Number of Customers at 12/31/2004 | Average Consumption | Revenues | | Proposed Increase | | Percent of Customers |
|----------|---|--|---------------------|---------------|----------------|-------------------|----------------|----------------------|
| | | | | Present Rates | Proposed Rates | Dollar Amount | Percent Amount | |
| 1 | 5/8 x 3/4 Inch Residential | 330 | 7,085 | \$ 148,282 | \$ 182,257 | \$ 33,975 | 22.91% | 92.56% |
| 2 | 3/4 Inch Residential | - | - | - | - | - | 0.00% | 0.00% |
| 3 | 1 Inch Residential | 18 | 9,470 | 15,942 | 19,286 | 3,344 | 20.98% | 5.01% |
| 4 | 2 Inch Residential | 9 | 82,182 | 39,929 | 53,594 | 13,665 | 34.22% | 2.41% |
| 5 | Construction Water | 0 | 149,000 | 417 | 829 | 412 | 98.73% | 0.02% |
| 6 | | | | | | | | |
| 7 | | | | | | | | |
| 8 | | | | | | | | |
| 9 | | | | | | | | |
| 10 | | | | | | | | |
| 11 | | | | | | | | |
| 12 | | | | | | | | |
| 13 | | | | | | | | |
| 14 | Totals | 356 | | | | | | 100.00% |
| 15 | | | | | | | | |
| 16 | Actual Year End Number | | | | | | | |
| 17 | of Customers: | 364 | | | | | | |
| 18 | | | | | | | | |
| 19 | | | | | | | | |
| 20 | | | | | | | | |
| 21 | | | | | | | | |

ICR Water Users Association
 Analysis of Revenue by Detailed Class
 Test Year Ended December 31, 2006

Supplemental Exhibit 1
 Schedule H-2
 Page 2
 Witness: Bourassa

| Line No. | Customer Classification and/or Meter Size | (a) Average Number of Customers at 12/31/2004 | Average Consumption | Average Bill | | Proposed Increase | | Percent of Customers |
|----------|---|--|---------------------|---------------|----------------|-------------------|----------------|----------------------|
| | | | | Present Rates | Proposed Rates | Dollar Amount | Percent Amount | |
| 1 | 5/8 x 3/4 Inch Residential | 330 | 7,085 | \$ 37.04 | \$ 42.66 | \$ 5.62 | 15.18% | 92.56% |
| 2 | 3/4 Inch Residential | - | - | - | - | - | 0.00% | 0.00% |
| 3 | 1 Inch Residential | 18 | 9,470 | 73.72 | 86.04 | 12.33 | 16.72% | 5.01% |
| 4 | 2 Inch Residential | 9 | 82,182 | 387.31 | 511.92 | 124.61 | 32.17% | 2.41% |
| 5 | Construction Water | 0 | 149,000 | 417.20 | 829.09 | 411.89 | 98.73% | 0.02% |
| 6 | | | | | | | | |
| 7 | | | | | | | | |
| 8 | | | | | | | | |
| 9 | | | | | | | | |
| 10 | | | | | | | | |
| 11 | | | | | | | | |
| 12 | | | | | | | | |
| 13 | | | | | | | | |
| 14 | Totals | 356 | | | | | | 100.00% |
| 15 | | | | | | | | |
| 16 | Actual Year End Number of Customers: | 364 | | | | | | |
| 17 | | | | | | | | |
| 18 | | | | | | | | |
| 19 | | | | | | | | |
| 20 | | | | | | | | |
| 21 | | | | | | | | |

Supplemental Exhibit 1
Schedule H-3
Page 1
Witness: Bourassa

| Line | Monthly Usage Charge for: | | | | Present | Proposed | Percent |
|------|---|--------------------------------|----------|--------|---------------------|----------------------|---------|
| No. | Meter Size (All Zones and Classes): | Present Rates | Rates | Change | Change | Change | |
| 1 | 5/8 Inch | \$ | 20.00 | \$ | 21.50 | \$ | 7.50% |
| 2 | 3/4 Inch | | 20.00 | | 32.25 | | 61.25% |
| 3 | 1 Inch | | 50.00 | | 53.75 | | 7.50% |
| 4 | 1 1/2 Inch | | 100.00 | | 107.50 | | 7.50% |
| 5 | 2 Inch | | 160.00 | | 172.00 | | 7.50% |
| 6 | 3 Inch | | 300.00 | | 344.00 | | 14.67% |
| 7 | 4 Inch | | 500.00 | | 537.50 | | 7.50% |
| 8 | 6 Inch | | 1,000.00 | | 1,075.00 | | 7.50% |
| 9 | | | | | | | |
| 10 | | | | | | | |
| 11 | | | | | | | |
| 12 | <u>Gallons In Minimum (All Zones and Classes)</u> | | 1,000.00 | | - | | |
| 13 | | | | | | | |
| 14 | | | | | | | |
| 15 | | | | | | | |
| 16 | <u>Commodity Rates</u> | | | | | | |
| 17 | <u>(Residential, Commercial, Industrial)</u> | | | | | | |
| 18 | All Meter Sizes | <u>Block</u> | | | <u>Present Rate</u> | <u>Proposed Rate</u> | |
| 19 | | All gallons | \$ | | 2.80 | N/A | |
| 20 | | | | | | | |
| 21 | | | | | | | |
| 22 | <u>Commodity Rates</u> | | | | | | |
| 23 | <u>(Residential, Commercial, Industrial)</u> | | | | | | |
| 24 | | <u>Block</u> | | | <u>Present Rate</u> | <u>Proposed Rate</u> | |
| 25 | 5/8 Inch Meter | 0 gallons to 4,000 gallons | | | N/A | \$ | 2.66 |
| 26 | | 4,001 gallons to 9,000 gallons | | | N/A | \$ | 3.41 |
| 27 | | over 9,000 gallons | | | N/A | \$ | 4.41 |
| 28 | | | | | | | |
| 29 | 3/4 Inch Meter | 0 gallons to 4,000 gallons | | | N/A | \$ | 2.66 |
| 30 | | 4,001 gallons to 9,000 gallons | | | N/A | \$ | 3.41 |
| 31 | | over 9,000 gallons | | | N/A | \$ | 4.41 |
| 32 | | | | | | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Present and Proposed Rates

Exhibit
Supplemental Schedule H-3
Page 2
Witness: Bourassa

| Line No. | Commodity Rates (Residential, Commercial, Industrial) | Block | (Per 1,000 gallons) | |
|----------|--|--|---------------------|--------------------|
| | | | Present Rate | Proposed Rate |
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | 1 Inch Meter | 0 gallons to 22,500 gallons over 22,500 gallons | N/A N/A | \$ 3.41 \$ 4.41 |
| 6 | | | | |
| 7 | | | | |
| 8 | 1.5 Inch | 0 gallons to 45,000 gallons over 45,000 gallons | N/A N/A | \$ 3.41 \$ 4.41 |
| 9 | | | | |
| 10 | | | | |
| 11 | 2 Inch Meter | 0 gallons to 72,000 gallons over 72,000 gallons | N/A N/A | \$ 3.41 \$ 4.41 |
| 12 | | | | |
| 13 | | | | |
| 14 | 3 Inch Meter | 0 gallons to 144,000 gallons over 144,000 gallons | N/A N/A | \$ 3.41 \$ 4.41 |
| 15 | | | | |
| 16 | | | | |
| 17 | 4 Inch Meter | 0 gallons to 225,000 gallons over 225,000 gallons | N/A N/A | \$ 3.41 \$ 4.41 |
| 18 | | | | |
| 19 | | | | |
| 20 | 6 Inch Meter | 0 gallons to 450,000 gallons over 450,000 gallons | N/A N/A | \$ 3.41 \$ 4.41 |
| 21 | | | | |
| 22 | | | | |
| 23 | | | | |
| 24 | | | | |
| 25 | | | | |
| 26 | | | | |
| 27 | Standpipe (Bulk, Construction) | All gallons | N/A | \$ 4.41 |
| 28 | | | | |
| 29 | | | | |
| 30 | | | | |
| 31 | | | | |
| 32 | | | | |

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 5/8 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Supplemental Exhibit 1
 Schedule H-4
 Page 1
 Witness: Bourassa

| <u>Usage</u> | <u>Present</u> | <u>Proposed</u> | <u>Dollar</u> | <u>Percent</u> |
|--------------|----------------|-----------------|-----------------|-----------------|
| | <u>Bill</u> | <u>Bill</u> | <u>Increase</u> | <u>Increase</u> |
| - | \$ 20.00 | \$ 21.50 | \$ 1.50 | 7.50% |
| 1,000 | 20.00 | 24.16 | \$ 4.16 | 20.80% |
| 2,000 | 22.80 | 26.82 | \$ 4.02 | 17.63% |
| 3,000 | 25.60 | 29.48 | \$ 3.88 | 15.16% |
| 4,000 | 28.40 | 32.14 | \$ 3.74 | 13.17% |
| 5,000 | 31.20 | 35.55 | \$ 4.35 | 13.94% |
| 6,000 | 34.00 | 38.96 | \$ 4.96 | 14.59% |
| 7,000 | 36.80 | 42.37 | \$ 5.57 | 15.14% |
| 8,000 | 39.60 | 45.78 | \$ 6.18 | 15.61% |
| 9,000 | 42.40 | 49.19 | \$ 6.79 | 16.01% |
| 10,000 | 45.20 | 53.60 | \$ 8.40 | 18.58% |
| 12,000 | 50.80 | 62.42 | \$ 11.62 | 22.87% |
| 14,000 | 56.40 | 71.24 | \$ 14.84 | 26.31% |
| 16,000 | 62.00 | 80.06 | \$ 18.06 | 29.13% |
| 18,000 | 67.60 | 88.88 | \$ 21.28 | 31.48% |
| 20,000 | 73.20 | 97.70 | \$ 24.50 | 33.47% |
| 25,000 | 87.20 | 119.75 | \$ 32.55 | 37.33% |
| 30,000 | 101.20 | 141.80 | \$ 40.60 | 40.12% |
| 35,000 | 115.20 | 163.85 | \$ 48.65 | 42.23% |
| 40,000 | 129.20 | 185.90 | \$ 56.70 | 43.89% |
| 45,000 | 143.20 | 207.95 | \$ 64.75 | 45.22% |
| 50,000 | 157.20 | 230.00 | \$ 72.80 | 46.31% |
| 60,000 | 185.20 | 274.10 | \$ 88.90 | 48.00% |
| 70,000 | 213.20 | 318.20 | \$ 105.00 | 49.25% |
| 80,000 | 241.20 | 362.30 | \$ 121.10 | 50.21% |
| 90,000 | 269.20 | 406.40 | \$ 137.20 | 50.97% |
| 100,000 | 297.20 | 450.50 | \$ 153.30 | 51.58% |

Present Rates:

| | |
|--------------------------|----------|
| Monthly Minimum: | \$ 20.00 |
| Gallons in Minimum | 1,000 |
| Charge Per 1,000 Gallons | \$ 2.80 |

Proposed Rates:

| | |
|--------------------------|----------|
| Monthly Minimum: | \$ 21.50 |
| Gallons in Minimum | - |
| Charge Per 1,000 Gallons | |
| Up to 4,000 | \$ 2.660 |
| Up to 9,000 | \$ 3.410 |
| Over 9,000 | \$ 4.410 |

| | | | | | |
|---------------|----------|----------|---------|--------|--|
| Average Usage | | | | | |
| 7,085 | \$ 37.04 | \$ 42.66 | \$ 5.62 | 15.18% | |
| Median Usage | | | | | |
| 4,500 | \$ 29.80 | \$ 33.85 | \$ 4.05 | 13.57% | |

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 1 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Supplemental Exhibit 1
 Schedule H-4
 Page 2
 Witness: Bourassa

| <u>Usage</u> | <u>Present</u> <u>Bill</u> | <u>Proposed</u> <u>Bill</u> | <u>Dollar</u> <u>Increase</u> | <u>Percent</u> <u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| - | \$ 50.00 | \$ 53.75 | \$ 3.75 | 7.50% |
| 1,000 | 50.00 | 57.16 | \$ 7.16 | 14.32% |
| 2,000 | 52.80 | 60.57 | \$ 7.77 | 14.72% |
| 3,000 | 55.60 | 63.98 | \$ 8.38 | 15.07% |
| 4,000 | 58.40 | 67.39 | \$ 8.99 | 15.39% |
| 5,000 | 61.20 | 70.80 | \$ 9.60 | 15.69% |
| 6,000 | 64.00 | 74.21 | \$ 10.21 | 15.95% |
| 7,000 | 66.80 | 77.62 | \$ 10.82 | 16.20% |
| 8,000 | 69.60 | 81.03 | \$ 11.43 | 16.42% |
| 9,000 | 72.40 | 84.44 | \$ 12.04 | 16.63% |
| 10,000 | 75.20 | 87.85 | \$ 12.65 | 16.82% |
| 12,000 | 80.80 | 94.67 | \$ 13.87 | 17.17% |
| 14,000 | 86.40 | 101.49 | \$ 15.09 | 17.47% |
| 16,000 | 92.00 | 108.31 | \$ 16.31 | 17.73% |
| 18,000 | 97.60 | 115.13 | \$ 17.53 | 17.96% |
| 20,000 | 103.20 | 121.95 | \$ 18.75 | 18.17% |
| 25,000 | 117.20 | 141.50 | \$ 24.30 | 20.73% |
| 30,000 | 131.20 | 163.55 | \$ 32.35 | 24.66% |
| 35,000 | 145.20 | 185.60 | \$ 40.40 | 27.82% |
| 40,000 | 159.20 | 207.65 | \$ 48.45 | 30.43% |
| 45,000 | 173.20 | 229.70 | \$ 56.50 | 32.62% |
| 50,000 | 187.20 | 251.75 | \$ 64.55 | 34.48% |
| 60,000 | 215.20 | 295.85 | \$ 80.65 | 37.48% |
| 70,000 | 243.20 | 339.95 | \$ 96.75 | 39.78% |
| 80,000 | 271.20 | 384.05 | \$ 112.85 | 41.61% |
| 90,000 | 299.20 | 428.15 | \$ 128.95 | 43.10% |
| 100,000 | 327.20 | 472.25 | \$ 145.05 | 44.33% |

Present Rates:

| | |
|--------------------------|----------|
| Monthly Minimum: | \$ 50.00 |
| Gallons in Minimum | 1,000 |
| Charge Per 1,000 Gallons | |
| All gallons | \$ 2.80 |

Proposed Rates:

| | |
|--------------------------|----------|
| Monthly Minimum: | \$ 53.75 |
| Gallons in Minimum | - |
| Charge Per 1,000 Gallons | |
| Up to 22,500 | \$ 3.410 |
| Over 22,500 | \$ 4.410 |

Average Usage

9,470 \$ 73.72 \$ 86.04 \$ 12.33 16.72%

Median Usage

1,500 \$ 51.40 \$ 58.87 \$ 7.47 14.52%

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 2 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Supplemental Exhibit 1
 Schedule H-4
 Page 3
 Witness: Bourassa

| <u>Usage</u> | <u>Present</u> <u>Bill</u> | <u>Proposed</u> <u>Bill</u> | <u>Dollar</u> <u>Increase</u> | <u>Percent</u> <u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| - | \$ 160.00 | \$ 172.00 | \$ 12.00 | 7.50% |
| 1,000 | 160.00 | 175.41 | \$ 15.41 | 9.63% |
| 2,000 | 162.80 | 178.82 | \$ 16.02 | 9.84% |
| 3,000 | 165.60 | 182.23 | \$ 16.63 | 10.04% |
| 4,000 | 168.40 | 185.64 | \$ 17.24 | 10.24% |
| 5,000 | 171.20 | 189.05 | \$ 17.85 | 10.43% |
| 6,000 | 174.00 | 192.46 | \$ 18.46 | 10.61% |
| 7,000 | 176.80 | 195.87 | \$ 19.07 | 10.79% |
| 8,000 | 179.60 | 199.28 | \$ 19.68 | 10.96% |
| 9,000 | 182.40 | 202.69 | \$ 20.29 | 11.12% |
| 10,000 | 185.20 | 206.10 | \$ 20.90 | 11.29% |
| 12,000 | 190.80 | 212.92 | \$ 22.12 | 11.59% |
| 14,000 | 196.40 | 219.74 | \$ 23.34 | 11.88% |
| 16,000 | 202.00 | 226.56 | \$ 24.56 | 12.16% |
| 18,000 | 207.60 | 233.38 | \$ 25.78 | 12.42% |
| 20,000 | 213.20 | 240.20 | \$ 27.00 | 12.66% |
| 25,000 | 227.20 | 259.75 | \$ 32.55 | 14.33% |
| 30,000 | 241.20 | 281.80 | \$ 40.60 | 16.83% |
| 35,000 | 255.20 | 303.85 | \$ 48.65 | 19.06% |
| 40,000 | 269.20 | 325.90 | \$ 56.70 | 21.06% |
| 45,000 | 283.20 | 347.95 | \$ 64.75 | 22.86% |
| 50,000 | 297.20 | 370.00 | \$ 72.80 | 24.50% |
| 60,000 | 325.20 | 414.10 | \$ 88.90 | 27.34% |
| 70,000 | 353.20 | 458.20 | \$ 105.00 | 29.73% |
| 80,000 | 381.20 | 502.30 | \$ 121.10 | 31.77% |
| 90,000 | 409.20 | 546.40 | \$ 137.20 | 33.53% |
| 100,000 | 437.20 | 590.50 | \$ 153.30 | 35.06% |
| 150,000 | 577.20 | 811.00 | \$ 233.80 | 40.51% |
| 200,000 | 717.20 | 1,031.50 | \$ 314.30 | 43.82% |
| 250,000 | 857.20 | 1,252.00 | \$ 394.80 | 46.06% |
| 300,000 | 997.20 | 1,472.50 | \$ 475.30 | 47.66% |
| 350,000 | 1,137.20 | 1,693.00 | \$ 555.80 | 48.87% |
| 400,000 | 1,277.20 | 1,913.50 | \$ 636.30 | 49.82% |
| 450,000 | 1,417.20 | 2,134.00 | \$ 716.80 | 50.58% |
| 500,000 | 1,557.20 | 2,354.50 | \$ 797.30 | 51.20% |

| | | | | |
|---------------|-----------|-----------|-----------|--------|
| Average Usage | | | | |
| 82,182 | \$ 387.31 | \$ 511.92 | \$ 124.61 | 32.17% |
| Median Usage | | | | |
| 22,500 | \$ 220.20 | \$ 248.73 | \$ 28.53 | 12.95% |

Present Rates:

| | |
|--------------------------|-----------|
| Monthly Minimum: | \$ 160.00 |
| Gallons in Minimum | 1,000 |
| Charge Per 1,000 Gallons | |
| All Gallons | \$ 2.80 |

Proposed Rates:

| | |
|--------------------------|-----------|
| Monthly Minimum: | \$ 172.00 |
| Gallons in Minimum | - |
| Charge Per 1,000 Gallons | |
| Up to 22,500 | \$ 3.410 |
| Over 22,500 | \$ 4.410 |

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification Construction Water
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Supplemental Exhibit 1
 Schedule H-4
 Page 4
 Witness: Bourassa

| <u>Usage</u> | <u>Present</u> <u>Bill</u> | <u>Proposed</u> <u>Bill</u> | <u>Dollar</u> <u>Increase</u> | <u>Percent</u> <u>Increase</u> |
|--------------|-------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| - | \$ - | \$ 172.00 | \$ 172.00 | 0.00% |
| 1,000 | 2.80 | 176.41 | 173.61 | 6200.36% |
| 2,000 | 5.60 | 180.82 | 175.22 | 3128.93% |
| 3,000 | 8.40 | 185.23 | 176.83 | 2105.12% |
| 4,000 | 11.20 | 189.64 | 178.44 | 1593.21% |
| 5,000 | 14.00 | 194.05 | 180.05 | 1286.07% |
| 6,000 | 16.80 | 198.46 | 181.66 | 1081.31% |
| 7,000 | 19.60 | 202.87 | 183.27 | 935.05% |
| 8,000 | 22.40 | 207.28 | 184.88 | 825.36% |
| 9,000 | 25.20 | 211.69 | 186.49 | 740.04% |
| 10,000 | 28.00 | 216.10 | 188.10 | 671.79% |
| 12,000 | 33.60 | 224.92 | 191.32 | 569.40% |
| 14,000 | 39.20 | 233.74 | 194.54 | 496.28% |
| 16,000 | 44.80 | 242.56 | 197.76 | 441.43% |
| 18,000 | 50.40 | 251.38 | 200.98 | 398.77% |
| 20,000 | 56.00 | 260.20 | 204.20 | 364.64% |
| 25,000 | 70.00 | 282.25 | 212.25 | 303.21% |
| 30,000 | 84.00 | 304.30 | 220.30 | 262.26% |
| 35,000 | 98.00 | 326.35 | 228.35 | 233.01% |
| 40,000 | 112.00 | 348.40 | 236.40 | 211.07% |
| 45,000 | 126.00 | 370.45 | 244.45 | 194.01% |
| 50,000 | 140.00 | 392.50 | 252.50 | 180.36% |
| 60,000 | 168.00 | 436.60 | 268.60 | 159.88% |
| 70,000 | 196.00 | 480.70 | 284.70 | 145.26% |
| 80,000 | 224.00 | 524.80 | 300.80 | 134.29% |
| 90,000 | 252.00 | 568.90 | 316.90 | 125.75% |
| 100,000 | 280.00 | 613.00 | 333.00 | 118.93% |

Present Rates:

Monthly Minimum: \$ -
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 2.80

Proposed Rates:

Monthly Minimum: \$ 172.00
 Gallons in Minimum -
 Charge Per 1,000 Gallons \$ 4.410

| | | | | | |
|---------------|----|--------|----|--------|-------------------|
| Average Usage | | | | | |
| 149,000 | \$ | 417.20 | \$ | 829.09 | \$ 411.89 98.73% |
| Median Usage | | | | | |
| 74,500 | \$ | 208.60 | \$ | 500.55 | \$ 291.95 139.95% |

ICR Water Company Users Association

Test Year Ended December 31, 2006

Cost of Service Study, Using Commodity Demand Method

Operating Margins at Present Rates

Supplemental Exhibit 1

Schedule G-1

Page 1

Witness: Bourassa

| Line No. | Meter Size-> | Totals | 5/8" x 3/4" | 3/4" | 1" | 1 1/2" | 2" | 3" | 4" | Const. & Golf Course 6" |
|----------|--------------------------|--------------|--------------|-------|-------------|--------|-------------|-------|-------|-------------------------|
| 1 | Water Revenues and | \$ 204,571 | \$ 148,282 | | \$ 15,942 | | \$ 35,492 | | | \$ 4,854 |
| 2 | Revenue Annualizations | 9,738 | 1,547 | | 1,344 | | 6,847 | | | |
| 3 | Reconciliation BC to C-1 | 335 | 335 | | | | | | | |
| 4 | Misc. Revenue (a) | 177,306 | 1,378 | - | 83 | - | 41 | - | - | 175,804 |
| 5 | Total Revenues | \$ 391,950 | \$ 151,542 | \$ - | \$ 17,368 | \$ - | \$ 42,381 | \$ - | \$ - | \$ 180,658 |
| 6 | | | | | | | | | | |
| 7 | Operating Expenses (b) | \$ 287,643 | \$ 156,643 | \$ - | \$ 15,528 | \$ - | \$ 27,104 | \$ - | \$ - | \$ 88,368 |
| 8 | Depreciation and | | | | | | | | | |
| 9 | Amortization (b) | 93,748 | 56,147 | - | 8,032 | - | 13,202 | - | - | 16,366 |
| 10 | Property Tax (c) | 15,374 | 5,944 | - | 681 | - | 1,662 | - | - | 7,086 |
| 11 | Income Tax (d) | 45 | 628 | - | 64 | - | (4) | - | - | (643) |
| 12 | Total Operating Expenses | \$ 396,811 | \$ 219,362 | \$ - | \$ 24,306 | \$ - | \$ 41,965 | \$ - | \$ - | \$ 111,178 |
| 13 | Operating Income | \$ (4,861) | \$ (67,820) | \$ - | \$ (6,938) | \$ - | \$ 416 | \$ - | \$ - | \$ 69,480 |
| 14 | Interest Expense (e) | - | - | - | - | - | - | - | - | - |
| 15 | Net Income | \$ (4,861) | \$ (67,820) | \$ - | \$ (6,938) | \$ - | \$ 416 | \$ - | \$ - | \$ 69,480 |
| 16 | Rate Base (f) | \$ (576,987) | \$ (307,668) | \$ - | \$ (50,757) | \$ - | \$ (87,021) | \$ - | \$ - | \$ (131,542) |
| 17 | Operating margin (g) | -1.24% | -44.75% | 0.00% | -39.94% | 0.00% | 0.98% | 0.00% | 0.00% | 38.46% |
| 18 | | | | | | | | | | |
| 19 | | | | | | | | | | |
| 20 | | | | | | | | | | |

(a) Miscellaneous Revenue includes \$175,026 of golf course revenues based on new WSA.

(b) Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.

(c) Property Taxes allocation based on Revenues

(d) Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income

(e) Interest Expense allocation based on Rate Base, Please see Schedule G-3, Page 1

(f) Rate Base computations are shown on Schedule G-3, Page 1

(g) Operating Income Divided by Total Revenues

ICR Water Company Users Association

Test Year Ended December 31, 2006

Cost of Service Study, Using Commodity Demand Method

Operating Margins at Proposed Rates

Supplemental Exhibit 1

Schedule G-2

Page 1

Witness: Bourassa

| Line No. | Meter Size-> | Totals | 5/8" x 3/4" | 3/4" | 1" | 1 1/2" | 2" | 3" | 4" | 6" | Const. & Golf Course |
|----------|----------------------------|--------------|--------------|--------|-------------|--------|-------------|--------|--------|--------|-------------------------|
| 1 | Water Revenues | \$ 255,966 | \$ 182,257 | \$ - | \$ 19,286 | \$ - | \$ 54,423 | \$ - | \$ - | \$ - | \$ - |
| 2 | Revenue Annualizations | 12,503 | 1,767 | - | 1,539 | - | 9,197 | - | - | - | - |
| 3 | Reconciliation BC to C-1 | 79 | 79 | - | - | - | - | - | - | - | - |
| 4 | Misc. Revenue (a) | 177,306 | 1,378 | - | 83 | - | 41 | - | - | - | 175,804 |
| 5 | Total Revenues | \$ 445,855 | \$ 185,481 | \$ - | \$ 20,908 | \$ - | \$ 63,662 | \$ - | \$ - | \$ - | \$ 175,804 |
| 6 | | | | | | | | | | | |
| 7 | Operating Expenses (b) | \$ 287,643 | \$ 156,643 | \$ - | \$ 15,528 | \$ - | \$ 27,104 | \$ - | \$ - | \$ - | \$ 88,368 |
| 8 | Depreciation and | | | | | | | | | | |
| 9 | Amortization (b) | 93,748 | 56,147 | - | 8,032 | - | 13,202 | - | - | - | 16,366 |
| 10 | Property Tax (c) | 15,374 | 6,396 | - | 721 | - | 2,195 | - | - | - | 6,062 |
| 11 | Income Tax (d) | 45 | (31) | - | (3) | - | 19 | - | - | - | 60 |
| 12 | Total Operating Expenses | \$ 396,811 | \$ 219,155 | \$ - | \$ 24,278 | \$ - | \$ 42,521 | \$ - | \$ - | \$ - | \$ 110,857 |
| 13 | Operating Income | \$ 49,044 | \$ (33,673) | \$ - | \$ (3,370) | \$ - | \$ 21,140 | \$ - | \$ - | \$ - | \$ 64,948 |
| 14 | Interest Expense (e) | - | - | - | - | - | - | - | - | - | - |
| 15 | Net Income | \$ 49,044 | \$ (33,673) | \$ - | \$ (3,370) | \$ - | \$ 21,140 | \$ - | \$ - | \$ - | \$ 64,948 |
| 16 | Rate Base (f) | \$ (576,987) | \$ (307,668) | \$ - | \$ (50,757) | \$ - | \$ (87,021) | \$ - | \$ - | \$ - | \$ (131,542) |
| 17 | Operating Margin (g) | 11.00% | -18.15% | 0.00% | -16.12% | 0.00% | 33.21% | 0.00% | 0.00% | 0.00% | 36.94% |
| 18 | | | | | | | | | | | |
| 19 | Percent of Total Customers | | 91.507% | 0.000% | 5.479% | 0.000% | 2.740% | 0.000% | 0.000% | 0.274% | |
| 20 | | | | | | | | | | | |
| 21 | | | | | | | | | | | |

(a) Miscellaneous Revenue includes \$175,026 of golf course revenues based on new WSA.

(b) Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.

(c) Property Taxes allocation based on Revenues

(d) Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income

(e) Interest Expense allocation based on Rate Base, Please see Schedule G-3, Page 1

(f) Rate Base computations are shown on Schedule G-3, Page 1

(g) Operating Income Divided by Total Revenues

ICR Water Company Users Association
 Test Year Ended December 31, 2000
 Cost of Service Study Using Commodity / Demand Method
 Allocation of Assets to Customer Classes

Supplemental Exhibit 1
 Schedule G-3
 Page 1
 Witness: Bourassa

| Line No. | | Const. & Golf Course | | | | | | | | | |
|----------|---|----------------------|--------------|------|-------------|------|-------------|------|--------------|------|------|
| | | 5/8 x 3/4" | 3/4" | 1" | 1 1/2" | 2" | 3" | 4" | 6" | 8" | 10" |
| 1 | Plant, Minus Accumulated Depreciation, Advances and Contributions in Aid, Meter Deposits, and Deferred Income Tax (from Schedule G-5, Page 1) | | | | | | | | | | |
| 2 | Commodity | \$ (101,483) | \$ (15,843) | \$ - | \$ (1,209) | \$ - | \$ (5,717) | \$ - | \$ (78,714) | \$ - | \$ - |
| 3 | Demand | (563,492) | (366,160) | - | (54,814) | - | (87,703) | - | (54,814) | - | - |
| 4 | Customer | 31,378 | 28,713 | - | 1,719 | - | 860 | - | 86 | - | - |
| 5 | Service | 40,107 | 35,480 | - | 2,400 | - | 1,738 | - | 488 | - | - |
| 6 | Meter | 16,503 | 10,142 | - | 1,147 | - | 3,801 | - | 1,413 | - | - |
| 7 | Totals | \$ (576,987) | \$ (307,668) | \$ - | \$ (50,757) | \$ - | \$ (87,021) | \$ - | \$ (131,542) | \$ - | \$ - |
| 8 | | | | | | | | | | | |
| 9 | | | | | | | | | | | |
| 10 | Net Rate Base | \$ (576,987) | \$ (307,668) | \$ - | \$ (50,757) | \$ - | \$ (87,021) | \$ - | \$ (131,542) | \$ - | \$ - |

Allocation of Expenses to Customer Classes

Witness: Bourassa

[illegible]

Summary of Allocation of Expenses to Customer Classes

Witness: Bourassa

[illegible]

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study, Using Commodity Demand Method
 Allocation of Rate Base by Function

Supplemental Exhibit 1
 Schedule G-5
 Page 1
 Witness: Bourassa

| Line No. | Rate Base | Adjusted | Demand | Commodity | Customer | Meter | Service | Totals |
|----------|---|--------------|--------------|--------------|-----------|-----------|-----------|--------------|
| 1 | Plant minus (Accumulated Depreciation | \$ (576,987) | \$ (563,492) | \$ (101,483) | \$ 31,378 | \$ 16,503 | \$ 40,107 | \$ (576,987) |
| 2 | Contributions in Aid of Construction | | | | | | | |
| 3 | Advances in Aid of Construction, | | | | | | | |
| 4 | Meter Deposits and Deferred Income Tax) | | | | | | | |
| 5 | | | | | | | | |
| 6 | | | | | | | | |
| 7 | | | | | | | | |
| 8 | | | | | | | | |
| 9 | | | | | | | | |
| 10 | | | | | | | | |
| 11 | | | | | | | | |
| 12 | | | | | | | | |
| 13 | | | | | | | | |
| 14 | | | | | | | | |
| 15 | | | | | | | | |
| 16 | | | | | | | | |
| 17 | | | | | | | | |
| 18 | | | | | | | | |
| 19 | | | | | | | | |
| 20 | | | | | | | | |
| 21 | | | | | | | | |
| | | (576,987) | (563,492) | (101,483) | 31,378 | 16,503 | 40,107 | (576,987) |

Supplemental Exhibit 1

| Schedule | G-5 |
|----------|-----|
|----------|-----|

Page 2

Witness: Bourassa

[illegible]

ICR Water Company Users Association

Test Year Ended December 31, 2006

Allocation of Plant, Less Contributions and Advances in Aid of

Construction, Meter Deposits and Accumulated Depreciation to Functions

Exhibit

Rebuttal Schedule

Page 2.1

Witness: Bourassa

G-5

| Line No. | Account No. | Description | Original Cost Plant | Accumulated Depreciation | Total Net Plant Values | Demand | Commodity | Customer | Meter | Service |
|----------|-------------|--|---------------------|--------------------------|------------------------|--------------|--------------|-----------|-----------|-----------|
| 1 | | General Plant Continued | | | | | | | | |
| 2 | 347 | Miscellaneous Equipment | 1,495 | 56 | 1,439 | - | | 1,439 | | |
| 3 | 348 | Other Tangible Plant | 23,458 | 3,722 | 19,736 | | | 19,736 | | |
| 4 | | Subtotal General Plant | \$ 35,627 | \$ 4,249 | \$ 31,378 | \$ - | \$ - | \$ 31,378 | \$ - | \$ - |
| 5 | | Total Plant | \$ 5,331,977 | \$ 625,682 | \$ 4,706,295 | \$ 4,172,967 | \$ 424,790 | \$ 31,378 | \$ 26,778 | \$ 50,382 |
| 6 | | | | | | | | | | |
| 7 | | Contributions in Aid of Construction | (1,330,469) | | (1,330,469) | (1,197,422) | (133,047) | | | |
| 8 | | Advances in Aid of Construction | (3,932,263) | | (3,932,263) | (3,539,037) | (393,226) | | | |
| 9 | | Meter Deposits | (20,550) | | (20,550) | | | | (10,275) | (10,275) |
| 10 | | Deferred Income Tax | | | | | | | | |
| 11 | | | | | | | | | | |
| 12 | | Totals | \$ 48,695 | \$ 625,682 | \$ (576,987) | \$ (563,492) | \$ (101,483) | \$ 31,378 | \$ 16,503 | \$ 40,107 |
| 13 | | Rate Bases (Plant - (AIAC, CIAC, Meter Deposits & Accum. Depr.) | | \$ (576,987) | | \$ (563,492) | \$ (101,483) | \$ 31,378 | \$ 16,503 | \$ 40,107 |

ICR Water Company Users Association

Test Year Ended December 31, 2006

Cost of Service Study, Using Commodity Demand Method

Allocation of Expenses to Functions

Supplemental Exhibit 1

Schedule G-6

Page 1

Witness: Bourassa

| Line No. | Description | Adjusted \$ | Golf Course Demand | | ICR Customers Only | | Golf Course Purchased Pwr | | Golf Course Commodity | | Customer | | Meter | | Service | | Totals |
|----------|--|-------------|--------------------|----------------|--------------------|----------------------------|----------------------------|--------------------------|-----------------------|-----------|----------|----------|------------|----|---------|---|--------|
| | | | Demand \$ | Over-sizing \$ | Commodity \$ | Purchased Wtr Commodity \$ | Purchased Pwr Commodity \$ | Golf Course Commodity \$ | \$ | \$ | \$ | \$ | \$ | \$ | | | |
| 1 | Salaries and Wages | 6,388 | - | - | - | 6,388 | - | - | - | - | - | - | - | - | - | - | 6,388 |
| 2 | Purchased Water (a) | 95,731 | - | - | - | - | - | 28,146 | - | - | - | - | - | - | - | - | 95,731 |
| 3 | Purchased Power (b) | 2,516 | - | - | 2,516 | - | - | - | - | - | - | - | - | - | - | - | 2,516 |
| 4 | Chemicals | 14,389 | 11,511 | - | 1,439 | - | - | - | - | - | - | - | 1,439 | - | - | - | 14,389 |
| 5 | Repairs and Maintenance (c) | 2,471 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,471 |
| 6 | Office Supplies and Expense | 46,550 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 46,550 |
| 7 | Outside Services | 72,739 | 54,191 | - | 6,183 | - | - | - | - | - | - | - | - | - | - | - | 72,739 |
| 8 | Outside Services - A Quality Water (d) | 4,029 | 3,626 | - | 403 | - | - | - | - | - | - | - | - | - | - | - | 4,029 |
| 9 | Water Testing | 3,600 | - | - | 3,600 | - | - | - | - | - | - | - | - | - | - | - | 3,600 |
| 10 | Rents | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 11 | Transportation Expenses | 8,995 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 8,995 |
| 12 | Insurance - General Liability | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 13 | Insurance - health and Life | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 | Regulatory Commission Expense - Rate Case | 30,000 | 27,000 | - | - | - | - | - | - | - | - | - | - | - | - | - | 30,000 |
| 15 | Miscellaneous Expense | 235 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 235 |
| 16 | Depreciation Expense (e) | 93,748 | 78,177 | 2,851 | 6,924 | - | - | - | - | - | - | - | - | - | - | - | 93,748 |
| 17 | Taxes Other Than Income | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 18 | Property Taxes, Allocated on Schedules G-1 & G-2 | 15,374 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 15,374 |
| 19 | Income Tax, Allocated on Schedules G-1 & G-2 | 45 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 45 |
| 20 | | | | | | | | | | | | | | | | | |
| 21 | Total | \$ 396,811 | \$ 174,505 | \$ 2,851 | \$ 21,064 | \$ 6,388 | \$ 28,146 | \$ 67,585 | \$ 317 | \$ 73,111 | \$ 5,153 | \$ 2,272 | \$ 381,392 | | | | |

22 (a) Purchased water cost is attributed to ICR customers only.

24 (b) Golf Course pays 100% of power costs for all three wells and pumping station on the Talking Rock Ranch system.

25 Included in Study is approx. \$11,900 of additional power costs paid for by Golf Course that is attributed to ICR customers.

26 (c) Repairs and Maintenance allocation factors computation shown on Schedule G-7, Page 2.1

27 (d) A Quality Water contract costs, factors and allocation computation shown on Schedule G-7, Page 2.1

28 (e) Depreciation allocation computed on Schedule G-6, Page 2.

ICR Water Company Users Association
Test Year Ended December 31, 2006
Allocation of Depreciation Expense to Functions

Supplemental Exhibit 1
Schedule G-6
Page 2
Witness: Bourassa

| Line | Account | No. | Description | Original Cost | Depreciation Rate | Depreciation Expense | Total Depr. Expense | Demand | Commodity | Customer | Meter | Service |
|------|--|--------|---|---------------|-------------------|----------------------|---------------------|-----------|-----------|----------|----------|----------|
| 1 | Intangible | | | | | | | | | | | |
| 2 | | 301.00 | Organization | \$ - | | \$ - | | | | | | |
| 3 | | 302.00 | Franchises | - | | - | | | | | | |
| 4 | | | | - | | - | | | | | | |
| 5 | Subtotal Intangible | | | \$ - | | \$ - | | \$ - | | \$ - | | \$ - |
| 6 | | | | | | | | | | | | |
| 7 | Source of Supply & Pumping Plant | | | | | | | | | | | |
| 8 | | 303 | Land and Land Rights | \$ - | 0.000% | \$ - | \$ - | \$ - | | \$ - | | \$ - |
| 9 | | 304 | Structures and Improvements | 398,048 | 3.330% | 13,255 | 13,255 | 13,255 | | | | |
| 10 | | 305 | Collecting and Impounding Res. | - | 2.500% | - | - | - | | | | |
| 11 | | 306 | Lakes, Rivers, Other Intakes | - | 2.500% | - | - | - | | | | |
| 12 | | 307 | Wells and Springs | 656,998 | 3.330% | 21,878 | 21,878 | 19,690 | 2,188 | | | |
| 13 | | 308 | Infiltration Galleries and Tunnels | - | 6.670% | - | - | - | | | | |
| 14 | | 309 | Supply Mains | - | 2.000% | - | - | - | | | | |
| 15 | | 310 | Power Generation Equipment | - | 5.000% | - | - | - | | | | |
| 16 | | 311 | Electric Pumping Equipment | 1,808 | 12.500% | 226 | 226 | 203 | 23 | | | |
| 17 | Subtotal Source of Supply & Pumping Plant | | | \$ 1,056,854 | | \$ 35,359 | \$ 35,359 | \$ 33,149 | \$ 2,210 | \$ - | \$ - | \$ - |
| 18 | | | | | | | | | | | | |
| 19 | Water Treatment | | | | | | | | | | | |
| 20 | | 320 | Water Treatment Equipment | 106,689 | 3.330% | 3,553 | 3,553 | 3,197 | 355 | | | |
| 21 | Subtotal Water Treatment | | | \$ 106,689 | | \$ 3,553 | \$ 3,553 | \$ 3,197 | \$ 355 | \$ - | \$ - | \$ - |
| 22 | | | | | | | | | | | | |
| 23 | Transmission and Distribution Plant | | | | | | | | | | | |
| 24 | | 330 | Distribution Reservoirs & Standpipe | \$ - | 2.220% | \$ - | \$ - | \$ - | | \$ - | | \$ - |
| 25 | | 331 | Transmission and Distribution Mains | 3,879,062 | 2.000% | 77,581 | 77,581 | 69,823 | 7,758 | | | |
| 26 | | 331 | Transmission and Distribution Mains - Over-sizing (a) | 158,395 | 2.000% | 3,168 | 3,168 | 2,851 | 317 | | | |
| 27 | | 333 | Services | 68,233 | 3.330% | 2,272 | 2,272 | | | | | 2,272 |
| 28 | | 334 | Meters | 27,117 | 8.330% | 2,259 | 2,259 | | | | 2,259 | |
| 29 | | 335 | Hydrants | - | 2.000% | - | - | - | | | | |
| 30 | | 336 | Backflow Prevention Devices | - | 6.670% | - | - | - | | | | |
| 31 | | 339 | Other Plant and Miscellaneous Equipment | - | 6.670% | - | - | - | | | | |
| 32 | Subtotal Transmission and Distribution Plant | | | \$ 4,132,807 | | \$ 85,280 | \$ 85,280 | \$ 72,674 | \$ 8,075 | \$ - | \$ 2,259 | \$ 2,272 |
| 33 | | | | | | | | | | | | |
| 34 | General Plant | | | | | | | | | | | |
| 35 | | 340 | Office Furniture and Fixtures | \$ 141 | 6.670% | \$ 9 | \$ 9 | \$ - | \$ - | \$ 9 | \$ - | \$ - |
| 36 | | 341 | Transportation Equipment | - | 20.000% | - | - | - | | | | |
| 37 | | 342 | Stores Equipment | - | 4.000% | - | - | - | | | | |
| 38 | | 343 | Tools and Work Equipment | - | 5.000% | - | - | - | | | | |
| 39 | | 344 | Laboratory Equipment | - | 10.000% | - | - | - | | | | |
| 40 | | 345 | Power Operated Equipment | - | 5.000% | - | - | - | | | | |
| 41 | | 346 | Communications Equipment | 10,533 | 10.000% | 1,053 | 1,053 | 263 | | | 790 | |

Exhibit
Rebuttal Schedule
Page 2.1
Witness: Bourassa

[illegible]

Supplemental Exhibit 1

Schedule G-7

Page 1

Witness: Bourassa

[illegible]

ICR Water Company Users Association
Test Year Ended December 31, 2006
COMMODITY - DEMAND METHOD FUNCTION FACTORS
Plant and Depreciation Expense Allocations Functions

Supplemental Exhibit 1
Schedule G-7
Page 2
Witness: Bourassa

Line

No.

| | | | | | |
|----|------------------------|--------------|---------------|------------------|-----------------|
| 1 | | | | | |
| 2 | <u>Description</u> | <u>Total</u> | <u>Demand</u> | <u>Commodity</u> | <u>Customer</u> |
| 3 | Wells | 1.00 | 0.90 | 0.10 | |
| 4 | Pumps & Equipment | 1.00 | 0.90 | 0.10 | |
| 5 | Trans. & Dist. Mains | 1.00 | 0.90 | 0.10 | |
| 6 | Customer | 1.00 | | | 1.00 |
| 7 | Services | 1.00 | | | 1.00 |
| 8 | Meters | 1.00 | | | 1.00 |
| 9 | Fire Hydrants | 1.00 | | | 1.00 |
| 10 | Transportation Equip. | 1.00 | 0.25 | | 0.75 |
| 11 | Office Furniture | 1.00 | | | 1.00 |
| 12 | Communication Equip. | 1.00 | 0.25 | | 0.75 |
| 13 | Water Treatment Equip. | 1.00 | 0.90 | 0.10 | |
| 14 | | | | | |
| 15 | | | | | |
| 16 | | | | | |
| 17 | | | | | |

ICR Water Company Users Association
Test Year Ended December 31, 2006
Cost of Service Study, Using Commodity Demand Method
Development Of Allocation Factors

Supplemental Exhibit 1
Schedule G-7
Page 2.1
Witness: Bourassa

Line

No.

| | | |
|---|---|----------------|
| 1 | <u>Repairs and Maintenance Allocation Factors</u> | |
| 2 | Repairs and Maintenance Demand | 80.00% |
| 3 | Repairs and Maintenance Commodity | 10.00% |
| 4 | Repairs and Maintenance Meters | 10.00% |
| 5 | Repairs and Maintenance Customer | 0.00% |
| 6 | | <u>100.00%</u> |

7

8

9 A Quality Water Contract Allocation Factors

10

| 11 | <u>Scope of Work</u> | <u>Functions</u> | <u>Demand</u> | <u>Commodity</u> | <u>Customer</u> | <u>Meter</u> |
|----|-----------------------|------------------------|---------------|------------------|-----------------|--------------|
| 12 | Meter Reading | Customer | | | 100% | |
| 13 | Operations | Demand/Commodity | 90% | 10% | | |
| 14 | Routine Maintenance | Demand/Commodity/Meter | 80% | 10% | 0% | 10% |
| 15 | Regulatory Compliance | Customer | | | 100% | |

16

17

| 18 | <u>Scope of Work</u> | <u>Functions</u> | <u>Weight</u> | <u>Cost</u> | <u>Demand</u> | <u>Commodity</u> | <u>Customer</u> | <u>Meter</u> |
|----|-----------------------|------------------------|---------------|-------------|---------------|------------------|-----------------|--------------|
| 19 | Meter Reading | Customer | 0.10 | \$ 7,274 | \$ - | \$ - | \$ 7,274 | \$ - |
| 20 | Operations | Demand/Commodity | 0.65 | 47,280 | 42,552 | 4,728 | - | - |
| 21 | Routine Maintenance | Demand/Commodity/Meter | 0.20 | 14,548 | 11,638 | 1,455 | - | 1,455 |
| 22 | Regulatory Compliance | Customer | 0.05 | 3,637 | - | - | 3,637 | - |
| 23 | | Totals | 1.00 | \$ 72,739 | \$ 54,191 | \$ 6,183 | \$ 10,911 | \$ 1,455 |
| 24 | | | | % of Total | 74.50% | 8.50% | 15.00% | 2.00% |

25

ICR Water Company Users Association
Test Year Ended December 31, 2006
Cost of Service Study, Using Commodity Demand Method
Development of Class Allocation Factors

Supplemental Exhibit 1
Schedule G-7
Page 3
Witness: Bourassa

COMMODITY ALLOCATION FACTOR

| Meter Size | (a) Total Gallons (in 1,000's) In Test Year | Percent of Total |
|---------------|--|------------------------|
| 5/8" x 3/4" | 28,049 | 15.61% |
| 3/4" | - | 0.00% |
| 1" | 2,141 | 1.19% |
| 1-1/2" | - | 0.00% |
| 2" | 10,122 | 5.63% |
| 3" | - | 0.00% |
| 4" | - | 0.00% |
| 6" | 139,361 | 77.56% (c) |
| 8" | - | 0.00% |
| Totals | 179,672 | 100.00% |

DEMAND ALLOCATION FACTOR

| Meter Size | Number of Meters and/or Services | Equiv- alent Weight | Equivalent Number of Meters and/or Services | Percent of Total |
|---------------|---|---------------------------|---|------------------------|
| 5/8" x 3/4" | 334 | 1.0 | 334 | 64.98% |
| 3/4" | - | 1.5 | 0 | 0.00% |
| 1" | 20 | 2.5 | 50 | 9.73% |
| 1-1/2" | - | 5.0 | 0 | 0.00% |
| 2" | 10 | 8.0 | 80 | 15.56% |
| 3" | - | 16.0 | 0 | 0.00% |
| 4" | - | 25.0 | 0 | 0.00% |
| 6" | 1 | 50.0 | 50 | 9.73% |
| 8" | - | 80.0 | 0 | 0.00% |
| Totals | 365 | | 514 | 100.00% |

CUSTOMER ALLOCATION FACTOR

| Meter Size | Number of Meters | Percent of Total |
|---------------|---------------------|------------------------|
| 5/8" x 3/4" | 334 | 91.51% |
| 3/4" | - | 0.00% |
| 1" | 20 | 5.48% |
| 1-1/2" | - | 0.00% |
| 2" | 10 | 2.74% |
| 3" | - | 0.00% |
| 4" | - | 0.00% |
| 6" | 1 | 0.27% |
| 8" | - | 0.00% |
| 10" | - | 0.00% |
| Totals | 365 | 100.00% |

SERVICES ALLOCATION FACTOR (b)

| Meter Size | Number of Services | Install- ation Cost | Weighted Number Services | Percent of Total |
|---------------|--------------------------|---------------------------|--------------------------------|------------------------|
| 5/8" x 3/4" | 334 | \$ 385.00 | 128,590 | 88.46% |
| 3/4" | 0 | 385.00 | 0 | 0.00% |
| 1" | 20 | 435.00 | 8,700 | 5.99% |
| 1-1/2" | 0 | 470.00 | 0 | 0.00% |
| 2" | 10 | 630.00 | 6,300 | 4.33% |
| 3" | 0 | 845.00 | 0 | 0.00% |
| 4" | 0 | 1,230.00 | 0 | 0.00% |
| 6" | 1 | 1,770.00 | 1,770 | 1.22% |
| 8" | 0 | 1,770.00 | 0 | 0.00% |
| 10" | 0 | 1,770.00 | 0 | 0.00% |
| Totals | 365 | | 145,360 | 100.00% |

METER ALLOCATION FACTOR (b)

| Meter Size | Number of Meters | Meter Cost | Weighted Dollars of Meters | Percent of Total |
|---------------|---------------------|---------------|----------------------------------|------------------------|
| 5/8" x 3/4" | 334 | \$ 135.00 | 45,090 | 61.46% |
| 3/4" | 0 | 215.00 | 0 | 0.00% |
| 1" | 20 | 255.00 | 5,100 | 6.95% |
| 1-1/2" | 0 | 465.00 | 0 | 0.00% |
| 2" | 10 | 1,690.00 | 16,900 | 23.03% |
| 3" | 0 | 2,265.00 | 0 | 0.00% |
| 4" | 0 | 3,245.00 | 0 | 0.00% |
| 6" | 1 | 6,280.00 | 6,280 | 8.56% |
| 8" | 0 | 6,280.00 | 0 | 0.00% |
| 10" | 0 | 6,280.00 | 0 | 0.00% |
| Totals | 365 | | 73,370 | 100.00% |

(PURCHASED POWER AND WATER ONLY)

COMMODITY ALLOCATION FACTOR

| Meter Size | (a)(d) Total Gallons (in 1,000's) In Test Year | Percent of Total |
|---------------|---|------------------------|
| 5/8" x 3/4" | 28,049 | 69.58% |
| 3/4" | - | 0.00% |
| 1" | 2,141 | 5.31% |
| 1-1/2" | - | 0.00% |
| 2" | 10,122 | 25.11% |
| 3" | - | 0.00% |
| 4" | - | 0.00% |
| 6" | - | 0.00% |
| 8" | - | 0.00% |
| Totals | 40,311 | 100.00% |

- (a) Includes customer and gallon sold annualization.
(b) Meter and Service Line cost from Arizona Corporation Commission Memo of June 30, 2004 from Marlin Scott, Jr.. Meter costs based on compound meters. Cost of service line and meter is based on costs allowed for a compound meter installation.
(c) Actual gallons delivered to Golf Course 125,026,000 gallons was delivered to Golf Course from all three wells. There was 14,334,700 gallons of unaccounted water. Quantity used for 6 inch meter includes the Golf Course water plus unaccounted water totaling 139,360,700.
(d) Golf Course pays 100% of power costs for all three wells and pumping stations on the Talking Rock Ranch system. Approximately \$11,900 of power costs paid for by Golf Course is attributed to ICR customers and is included in study. Purchased water costs are attributed to ICR customers only.

SUPPLEMENTAL EXHIBIT 2

ICR Water Users Association
Test Year Ended December 31, 2006
Computation of Increase in Gross Revenue
Requirements As Adjusted
Assuming Golf Course Leaves the ICR Water System

Supplemental Exhibit 2
Proforma Schedule A-1
Page 1
Witness: Bourassa

| | | | | | |
|------|---|--------------------|--------|----|-----------|
| Line | | | | | |
| No. | | | | | |
| 1 | Fair Value Rate Base | | | \$ | (576,986) |
| 2 | | | | | |
| 3 | Adjusted Operating Income | | | | (107,017) |
| 4 | | | | | |
| 5 | Current Rate of Return | | | | N/A |
| 6 | | | | | |
| 7 | Required Operating Income | Operating Margin = | 13.14% | \$ | 49,026 |
| 8 | | | | | |
| 9 | Required Rate of Return on Fair Value Rate Base | | | | N/A |
| 10 | | | | | |
| 11 | Operating Income Deficiency | | | \$ | 156,043 |
| 12 | | | | | |
| 13 | Gross Revenue Conversion Factor | | | | 1.0000 |
| 14 | | | | | |
| 15 | Increase in Gross Revenue | | | | |
| 16 | Requirement | | | \$ | 156,043 |
| 17 | | | | | |
| 18 | % Increase over Adjusted Revenues | | | | 71.93% |
| 19 | | | | | |
| 20 | | | | | |
| 21 | | | | | |
| 22 | | | | | |
| 23 | | | | | |
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| 38 | | | | | |
| 39 | | | | | |
| 40 | <u>SUPPORTING SCHEDULES:</u> | | | | |
| 41 | Rebuttal B-1 | | | | |
| 42 | Proforma Schedule C-1 | | | | |
| 43 | | | | | |
| 44 | | | | | |
| 45 | | | | | |
| 46 | | | | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Income Statement
Assuming Golf Course Leaves the ICR Water System

| Line No. | ADJ. LABEL--> | 1 | 2 | 3 | 4 | 5 | 6 |
|----------|-----------------------------------|-------------|---------------|------------|-----------|--------------|------------|
| | | Remove | Pumping Power | Property | Revenues | Rate Case | Required |
| | | Golf Course | Costs | Taxes | from New | Expense | with Rate |
| | | Revenues | | | Service | | Increase |
| | | | | | Agreement | | |
| | | Adjusted | | | | Proforma | Required |
| | | Results | | | | Adjusted | Rate |
| | | | | | | Results | Increase |
| | | | | | | | |
| 1 | Revenues | | | | | | |
| 2 | Metered Water Revenues | \$ 214,643 | | | | \$ 214,643 | \$ 370,705 |
| 3 | Unmetered Water Revenues | - | | | | - | - |
| 4 | Other Water Revenues | 177,306 | | | | 2,280 | 2,280 |
| 5 | | \$ 391,950 | \$ (175,026) | \$ - | \$ - | \$ 216,924 | \$ 372,985 |
| 6 | Operating Expenses | | | | | | |
| 7 | Salaries and Wages - Employees | | | | | | |
| 8 | Purchased Water | 6,388 | | | | 6,388 | 6,388 |
| 9 | Purchased Power | 95,731 | (67,582) | | | 28,148 | 28,148 |
| 10 | Fuel for Power Production | - | | | | - | - |
| 11 | Chemicals | 2,516 | | | | 2,516 | 2,516 |
| 12 | Water Testing | 4,029 | | | | 4,029 | 4,029 |
| 13 | Repairs and Maintenance | 14,389 | | | | 14,389 | 14,389 |
| 14 | Office Expense | 1,720 | | | | 1,720 | 1,720 |
| 15 | Contractual Services - Accounting | 32,549 | | | | 32,549 | 32,549 |
| 16 | Contractual Services - Legal | 513 | | | | 513 | 513 |
| 17 | Contractual Services - Operations | 86,227 | | | | 86,227 | 86,227 |
| 18 | Contractual Services - Other | - | | | | - | - |
| 19 | Rental of Building/Real Property | 3,600 | | | | 3,600 | 3,600 |
| 20 | Rental of Equipment | - | | | | - | - |
| 21 | Transportation Expenses | - | | | | - | - |
| 22 | Telephone | 751 | | | | 751 | 751 |
| 23 | Insurance | 8,995 | | | | 8,995 | 8,995 |
| 24 | Reg. Comm. Exp. | 30,000 | | | | 30,000 | 30,000 |
| 25 | Bad Debt Expense | - | | | | - | - |
| 26 | Miscellaneous Expenses | 235 | | | | 235 | 235 |
| 27 | Depreciation Expenses | 93,748 | | | | 93,748 | 93,748 |
| 28 | Property Taxes | 15,374 | | (5,287) | | 10,087 | 10,087 |
| 29 | Payroll Taxes | - | | | | - | - |
| 30 | Sales Tax Expense | - | | | | - | - |
| 31 | Income Tax | 45 | | | | 45 | 45 |
| 32 | Total Operating Expenses | \$ 396,811 | \$ (67,582) | \$ (5,287) | \$ - | \$ 323,941 | \$ 323,941 |
| 33 | Operating Income | \$ (4,861) | \$ (175,026) | \$ 5,287 | \$ - | \$ (107,017) | \$ 49,044 |
| 34 | Other Income (Expense) | | | | | | |
| 35 | Interest Income | 180 | | | | 180 | 180 |
| 36 | Other Income | 779 | | | | 779 | 779 |
| 37 | Interest Expense | - | | | | - | - |
| 38 | Other Expense | - | | | | - | - |
| 39 | | - | | | | - | - |
| 40 | Total Other Income (Expense) | \$ 959 | \$ - | \$ - | \$ - | \$ 959 | \$ 959 |
| 41 | Net Profit (Loss) | \$ (3,902) | \$ (175,026) | \$ 5,287 | \$ - | \$ (106,058) | \$ 50,003 |

RECAP SCHEDULES:
Proforma A-1

SUPPORTING SCHEDULES:
Supplemental C-1

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 1

Supplemental Exhibit 2
Schedule C-2
Page 1
Witness: Bourassa

| Line No. | | |
|-------------|--|----------------------------|
| 1 | <u>Remove Revenues provided by WSA</u> | |
| 2 | | |
| 3 | Reservation Charge | \$ 50,000 |
| 4 | Commodity Changes | <u>125,026</u> |
| 5 | Total | \$ 175,026 |
| 6 | | |
| 7 | | |
| 8 | Adjustment to Revenues/Expenses | <u><u>\$ (175,026)</u></u> |
| 9 | | |
| 10 | | |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | | |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |
| 21 | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Supplemental Exhibit 2
Schedule C-2
Page 2
Witness: Bourassa

| Line No. | | | | |
|-------------|---|----|---------------|---------------------------|
| 1 | <u>Remove power costs attributed to Talking Rock Golf and included in supplemental filing</u> | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | <u>Purchased Power Costs Paid By Talking Rock Golf Course</u> | | | |
| 5 | | | | |
| 6 | TRR Pumping Station | \$ | 34,241 | |
| 7 | TRR Well Field | | 38,480 | |
| 8 | | | | |
| 9 | Total Power Costs Paid By Golf Course | \$ | <u>72,721</u> | |
| 10 | | | | |
| 11 | Gallons sold on Talking Rock system | | 134,532 | |
| 12 | Cost Per 1,000 gallons | \$ | 0.541 | |
| 13 | Gallons delivered to Talking Rock Golf for test year | | 125,026 | |
| 14 | Power costs attributed to Talking Rock Golf | | | \$ 67,582 |
| 15 | | | | |
| 16 | | | | |
| 17 | Adjustment to Purchased Power | | | <u>\$ (67,582)</u> |
| 18 | | | | |
| 19 | Adjustment to Revenues/Expenses | | | <u><u>\$ (67,582)</u></u> |
| 20 | | | | |
| 21 | | | | |
| 22 | | | | |
| 23 | | | | |
| 24 | | | | |
| 25 | | | | |
| 26 | | | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Supplemental Exhibit 2
Schedule C-2
Page 3
Witness: Bourassa

| Line No. | | |
|-------------|--|-------------------|
| 1 | <u>Adjust Property Taxes to Reflect Proposed Revenues:</u> | |
| 2 | | |
| 3 | Adjusted Revenues in year ended 12/31/2006 | \$ 216,924 |
| 4 | Adjusted Revenues in year ended 12/31/2006 | 216,924 |
| 5 | Proposed Revenues | 372,985 |
| 6 | | |
| 7 | Average of three year's of revenue | \$ 268,944 |
| 8 | Average of three year's of revenue, times 2 | \$ 537,888 |
| 9 | Add: | |
| 10 | Construction Work in Progress at 10% | \$ - |
| 11 | Deduct: | |
| 12 | Book Value of Transportation Equipment | - |
| 13 | | |
| 14 | Full Cash Value | \$ 537,888 |
| 15 | Assessment Ratio | 23.50% |
| 16 | Assessed Value | 126,404 |
| 17 | Property Tax Rate | 7.9800% |
| 18 | | |
| 19 | Property Tax | 10,087 |
| 20 | Tax on Parcels | 0 |
| 21 | | |
| 22 | Total Property Tax at Proposed Rates Rebuttal | \$ 10,087 |
| 23 | Property Taxes per Direct Filing | 15,374 |
| 24 | Change in Property Taxes | <u>\$ (5,287)</u> |
| 25 | | |
| 26 | | |
| 27 | Adjustment to Revenues and/or Expenses | <u>\$ (5,287)</u> |
| 28 | | |

SUPPLEMENTAL EXHIBIT 3

ICR Water Users Association
Test Year Ended December 31, 2006
Computation of Increase in Gross Revenue
Requirements As Adjusted
Assuming Golf Course Pays Tariff Rates

Supplemental Exhibit 3
Schedule A-1
Page 1
Witness: Bourassa

Line
No.

| | | | |
|----|---|-------|------------------|
| 1 | Fair Value Rate Base | \$ | (576,986) |
| 2 | | | |
| 3 | Adjusted Operating Income | | (7,009) |
| 4 | | | |
| 5 | Current Rate of Return | | N/A |
| 6 | | | |
| 7 | Required Operating Income Operating Margin = | 9.83% | \$ 37,208 |
| 8 | | | |
| 9 | Required Rate of Return on Fair Value Rate Base | | N/A |
| 10 | | | |
| 11 | Operating Income Deficiency | \$ | 44,216 |
| 12 | | | |
| 13 | Gross Revenue Conversion Factor | | 1.0000 |
| 14 | | | |
| 15 | Increase in Gross Revenue | | |
| 16 | Requirement | \$ | 44,216 |
| 17 | | | |
| 18 | % Increase over Adjusted Revenues | | 13.23% |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | | | |
| 25 | | | |
| 26 | | | |
| 27 | | | |
| 28 | | | |
| 29 | | | |
| 30 | | | |
| 31 | | | |
| 32 | | | |
| 33 | | | |
| 34 | | | |
| 35 | | | |
| 36 | | | |
| 37 | | | |
| 38 | | | |
| 39 | | | |

SUPPORTING SCHEDULES:

Rebuttal B-1

Settlement Schedule C-1

ICR Water Users Association
Test Year Ended December 31, 2006
Income Statement
Assuming Golf Course Pays Tariff Rates

| Line No. | ADJ. LABEL--> | 1 Remove Golf Course Revenues | 2 Wheeling Charges | 3 Pumping Power Costs | 4 Revenues from Modified Well Agmt. | 5 Property Taxes | Adjusted Results | Required Rate Increase | Required with Rate Increase |
|----------|--------------------------------------|--|--------------------------|-----------------------------|--|------------------------|---------------------|------------------------------|-----------------------------------|
| 1 | Revenues | | | | | | | | |
| 2 | Metered Water Revenues | \$ 214,643 | | | | | \$ 214,643 | \$ 44,216 | \$ 258,860 |
| 3 | Unmetered Water Revenues | 53,403 | (51,123) | | \$ 114,290 | | 119,652 | | 119,652 |
| 4 | Other Water Revenues | 268,047 | (51,123) | | \$ 114,290 | | 334,296 | \$ 44,216 | 378,512 |
| 5 | | | | | | | | | |
| 6 | Operating Expenses | | | | | | | | |
| 7 | Salaries and Wages - Employees | | | | | | | | |
| 8 | Purchased Water | 6,388 | | | | | 6,388 | | 6,388 |
| 9 | Purchased Power | 16,239 | | 36,269 | | | 52,508 | | 52,508 |
| 10 | Fuel for Power Production | | | | | | | | |
| 11 | Chemicals | 2,516 | | | | | 2,516 | | 2,516 |
| 12 | Water Testing | 4,029 | | | | | 4,029 | | 4,029 |
| 13 | Repairs and Maintenance | 14,389 | | | | | 14,389 | | 14,389 |
| 14 | Office Expense | 1,720 | | | | | 1,720 | | 1,720 |
| 15 | Contractual Services - Accounting | 32,549 | | | | | 32,549 | | 32,549 |
| 16 | Contractual Services - Legal | 513 | | | | | 513 | | 513 |
| 17 | Contractual Services - Other | 86,227 | | | | | 86,227 | | 86,227 |
| 18 | Contractual Services - Real Property | | | | | | | | |
| 19 | Rental of Building/Real Property | 3,600 | | | | | 3,600 | | 3,600 |
| 20 | Rental of Equipment | | | | | | | | |
| 21 | Transportation Expenses | | | | | | | | |
| 22 | Telephone | 751 | | | | | 751 | | 751 |
| 23 | Insurance | 8,995 | | | | | 8,995 | | 8,995 |
| 24 | Reg. Comm. Exp. | 20,000 | | | | | 20,000 | | 20,000 |
| 25 | Bad Debt Expense | | | | | | | | |
| 26 | Miscellaneous Expenses | 235 | | | | | 235 | | 235 |
| 27 | Depreciation Expenses | 93,748 | | | | | 93,748 | | 93,748 |
| 28 | Property Taxes | 11,160 | | | | 1,931 | 13,091 | | 13,091 |
| 29 | Payroll Taxes | | | | | | | | |
| 30 | Sales Tax Expense | | | | | | | | |
| 31 | Income Tax | 45 | | | | | 45 | | 45 |
| 32 | | | | | | | | | |
| 33 | Total Operating Expenses | \$ 303,105 | \$ - | \$ 36,269 | \$ - | \$ 1,931 | \$ 341,304 | \$ - | \$ 341,304 |
| 34 | Operating Income | \$ (35,058) | \$ (51,123) | \$ (36,269) | \$ 114,290 | \$ (1,931) | \$ (7,009) | \$ 44,216 | \$ 37,208 |
| 35 | Other Income (Expense) | | | | | | | | |
| 36 | Interest Income | 180 | | | | | 180 | | 180 |
| 37 | Other Income | 779 | | | | | 779 | | 779 |
| 38 | Interest Expense | | | | | | | | |
| 39 | Other Expense | | | | | | | | |
| 40 | | | | | | | | | |
| 41 | Total Other Income (Expense) | \$ 959 | \$ - | \$ - | \$ - | \$ - | \$ 959 | \$ - | \$ 959 |
| 42 | Net Profit (Loss) | \$ (34,099) | \$ (51,123) | \$ (36,269) | \$ 114,290 | \$ (1,931) | \$ (6,049) | \$ 44,216 | \$ 38,167 |
| 43 | | | | | | | | | |

RECAP SCHEDULES:
Proforma A-1

SUPPORTING SCHEDULES:
Rebuttal C-1
Proforma C-2

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 1

Supplemental Exhibit 3
Schedule C-2
Page 1
Witness: Bourassa

Line
No.

| | | | |
|----|--|----|-----------------|
| 1 | <u>Remove Golf Course Expense Reimbursement Revenues</u> | | |
| 2 | | | |
| 3 | | | |
| 4 | Golf Course Expense Reimbursements | \$ | 51,123 |
| 5 | | | |
| 6 | | | |
| 7 | | | |
| 8 | Adjustment to Revenues/Expenses | \$ | <u>(51,123)</u> |
| 9 | | | |
| 10 | | | |
| 11 | | | |
| 12 | | | |
| 13 | | | |
| 14 | | | |
| 15 | | | |
| 16 | | | |
| 17 | | | |
| 18 | | | |
| 19 | | | |
| 20 | | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Supplemental Exhibit 3
Schedule C-2
Page 2
Witness: Bourassa

Line
No.

| | | | | |
|----|--|----------|----|--------------|
| 1 | <u>Wheeling Charges For Golf Course Water</u> | | | |
| 2 | | | | |
| 3 | Gallons Delivered to Golf Course during test year (in 1,000's) | 125,026 | | |
| 4 | Less: Gallons subject to tariff rates | 36,532 | | |
| 5 | Gallons subject to wheeling fee | 88,494 | | |
| 6 | | | | |
| 7 | Quantity of Water Delivered in acre feet | 271.58 | | |
| 8 | Wheeling Charge per acre foot | \$ 11.35 | | |
| 9 | Total Wheeling Charges | | \$ | 3,082 |
| 10 | | | | |
| 11 | | | | |
| 12 | Total Wheeling Charges | | \$ | <u>3,082</u> |
| 13 | | | | |
| 14 | | | | |
| 15 | Adjustment to Revenues/Expenses | | \$ | <u>3,082</u> |
| 16 | | | | |
| 17 | | | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Supplemental Exhibit 3
Schedule C-2
Page 3
Witness: Bourassa

Line
No.

| | | | |
|----|---|----|---------|
| 1 | <u>Purchased Power Costs Paid By Talking Rock Golf Course</u> | | |
| 2 | | | |
| 3 | | | |
| 4 | TRR Pumping Station | \$ | 34,241 |
| 5 | TRR Well Field | | 38,480 |
| 6 | Power Costs Paid by Golf Course | \$ | 72,721 |
| 7 | | | |
| 8 | Gallons Pumped on Talkig Rock System (in 1,000's) | | 148,867 |
| 9 | Cost per 1,000 gallons | \$ | 0.4885 |
| 10 | Gallons Pumped from Well #3 per Staff CRM-24 | | 60,385 |
| 11 | Power Costs for Well #3 | | 29,498 |
| 12 | Adobe Pumping Station (paid by TRG but for ICR customers) | \$ | 6,771 |
| 13 | | | |
| 14 | Adjustment to Puchased Power | \$ | 36,269 |
| 15 | | | |
| 16 | | | |
| 17 | Adjustment to Revenues/Expenses | \$ | 36,269 |
| 18 | | | |
| 19 | | | |
| 20 | | | |
| 21 | | | |
| 22 | | | |
| 23 | | | |
| 24 | | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 4

Supplemental Exhibit 3
Schedule C-2
Page 4
Witness: Bourassa

Line
No.

| | | |
|----|--|-------------------|
| 1 | <u>Golf Course Revenues at present rates</u> | |
| 2 | | |
| 3 | Gallons Delivered from ICR Wells (in 1,000's) per Staff CRM-24 | 36,544 |
| 4 | Less: 1,000 gallons included in monthly minimum | <u>12</u> |
| 5 | Gallons Subject to Commodity Rate | <u>36,532</u> |
| 6 | | |
| 7 | Revenues at Present Rates | |
| 8 | Monthly Minimum 6 inch meter at \$1,000 per month | \$ 12,000 |
| 9 | Commodity rate at \$2.80 per 1,000 gallons | <u>\$ 102,290</u> |
| 10 | Total Revenues from Golf Course at Present Rates | <u>\$ 114,290</u> |
| 11 | | |
| 12 | | |
| 13 | | |
| 14 | Adjustment to Revenues/Expenses | <u>\$ 114,290</u> |
| 15 | | |
| 16 | | |
| 17 | | |
| 18 | | |
| 19 | | |
| 20 | | |

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 5

Supplemental Exhibit 3
Schedule C-2
Page 5
Witness: Bourassa

Line
No.

| | | | |
|----|--|----|---------|
| 1 | <u>Adjust Property Taxes to Reflect Proposed Revenues:</u> | | |
| 2 | | | |
| 3 | Adjusted Revenues in year ended 12/31/2006 | \$ | 334,296 |
| 4 | Adjusted Revenues in year ended 12/31/2006 | | 334,296 |
| 5 | Proposed Revenues | | 378,512 |
| 6 | | | |
| 7 | Average of three year's of revenue | \$ | 349,034 |
| 8 | Average of three year's of revenue, times 2 | \$ | 698,069 |
| 9 | Add: | | |
| 10 | Construction Work in Progress at 10% | \$ | - |
| 11 | Deduct: | | |
| 12 | Book Value of Transportation Equipment | | - |
| 13 | | | |
| 14 | Full Cash Value | \$ | 698,069 |
| 15 | Assessment Ratio | | 23.50% |
| 16 | Assessed Value | | 164,046 |
| 17 | Property Tax Rate | | 7.9800% |
| 18 | | | |
| 19 | Property Tax | | 13,091 |
| 20 | Tax on Parcels | | 0 |
| 21 | | | |
| 22 | Total Property Tax at Proposed Rates Rebuttal | \$ | 13,091 |
| 23 | Property Taxes per Direct Filing | | 11,160 |
| 24 | Change in Property Taxes | \$ | 1,931 |
| 25 | | | |
| 26 | | | |
| 27 | Adjustment to Revenues and/or Expenses | \$ | 1,931 |
| 28 | | | |

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 MIKE GLEASON, Chairman
4 JEFF HATCH-MILLER
5 WILLIAM A. MUNDELL
6 KRISTIN K. MAYES
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION
9 OF ICR WATER USERS ASSOCIATION,
10 INC. FOR DETERMINATION OF THE
11 CURRENT FAIR VALUE OF ITS UTILITY
12 PLANT AND PROPERTY AND FOR
13 INCREASES IN ITS RATES AND
14 CHARGES FOR UTILITY SERVICES

DOCKET NO. W-02824A-07-0388

15 **ADDITIONAL SUPPLEMENTAL TESTIMONY OF**

16 **ROBERT M. BUSCH**

17 **IN SUPPORT OF WATER SERVICE AGREEMENT**
18 **ON BEHALF OF ICR WATER USERS ASSOCIATION, INC.**

19 **OCTOBER 15, 2008**

1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Robert M. Busch. I have been contracted by ICR Water Users
4 Association, Inc. ("ICRWUA" or the "Association") to be the Association's
5 manager. My business address is P.O. Box 5669, Chino Valley, Arizona 86323.

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. Yes, I submitted Rebuttal Testimony on December 14, 2007, and Supplemental
9 Rebuttal Testimony on March 14, 2008.

10 **Q. WHAT IS THE PURPOSE OF THIS ADDITIONAL SUPPLEMENTAL**
11 **REBUTTAL TESTIMONY?**

12 A. The purpose of my Additional Supplemental Rebuttal Testimony is to discuss the
13 Water Service Agreement ("Water Service Agreement" or "WSA") executed
14 September 12, 2008, between ICRWUA, Harvard Simon I, LLC, Talking Rock
15 Land, L.L.C., and Talking Rock Golf Club, L.L.C. (the "Golf Club"). Harvard
16 Simon I, LLC, Talking Rock Land, L.L.C., and the Talking Rock Golf Club,
17 L.L.C., are referred to collectively in my testimony as the "Talking Rock Parties."
18 ICRWUA witness Thomas J. Bourassa is also providing Additional Supplemental
19 Testimony in support of the Water Service Agreement, specifically addressing the
20 financial impact to the customers of the Association if the WSA is not approved,
21 among other things.

22 **Q. DID YOU PARTICIPATE IN THE NEGOTIATION AND PREPARATION**
23 **OF THE WATER SERVICE AGREEMENT?**

24 A. Yes. I personally attended meetings with the board of ICRWUA and meetings
25 with representatives of the Talking Rock Parties which occurred generally from
26 April through early September 2008. I reviewed drafts of the WSA, and
27 participated in a number of phone calls.
28

1 **Q. PLEASE IDENTIFY FOR THE RECORD THE WATER SERVICE**
2 **AGREEMENT.**

3 A. I have attached as Attachment A to this testimony an executed copy of the Water
4 Service Agreement. The WSA was the culmination of several months of intense
5 negotiations between the board of ICRWUA and the Talking Rock Parties. The
6 Water Service Agreement was executed on September 12, 2008, and was filed
7 with the Commission in this docket that same day.

8 **Q. DOES THE WATER SERVICE AGREEMENT BECOME EFFECTIVE**
9 **IMMEDIATELY?**

10 A. No. Pursuant to Section 11 of the Water Service Agreement, the parties must
11 seek Commission approval of the WSA in this docket. If the Commission
12 determines that it does not have authority to approve the WSA, then the parties
13 must seek Commission approval of the rates and charges for water service that
14 are set forth in the WSA. If the Commission denies approval of the WSA, or if
15 the Commission denies approval of the rates and charges or term contained in the
16 WSA, then the WSA does not become effective and has no further force or effect.
17 In such event, the existing agreements between ICRWUA and the Talking Rock
18 Parties remain in place and in effect.

19 **Q. ARE YOU FAMILIAR WITH THE EVENTS THAT LED ICRWUA AND**
20 **THE TALKING ROCK PARTIES TO NEGOTIATE AND EXECUTE THE**
21 **WATER SERVICE AGREEMENT.**

22 A. Yes I am. However, an explanation of the events that led to the negotiation and
23 execution of the Water Service Agreement requires that I go back and recount
24 some of the relevant history regarding the relationship between ICRWUA and the
25 Talking Rock Parties. On May 31, 2001, ICRWUA filed an application with the
26 Commission requesting approval for an extension of the Association's certificate
27 of convenience and necessity (the "CC&N Application") to include
28 approximately 3,700 acres being developed as the master planned community of

1 Talking Rock Ranch ("Talking Rock Ranch"). In connection with the CC&N
2 Application, ICRWUA entered into a Main Extension Agreement (the "MXA")
3 with the property owner and developer of Talking Rock Ranch, Harvard Simon I,
4 L.L.C ("Harvard") dated March 5, 2001. Pursuant to the MXA, Harvard was
5 required to advance water facilities needed to serve Talking Rock Ranch at an
6 estimated cost of \$15,398,078. A copy of the MXA was filed with the
7 Commission as an exhibit to the CC&N Application, and I also attached a copy of
8 the MXA to my Supplemental Rebuttal Testimony filed March 14, 2008.

9 When the CC&N Application was filed, the parties contemplated that
10 Harvard would supply water to ICRWUA for Talking Rock Ranch from wells
11 drilled and owned by Harvard pursuant to the terms and conditions of a separate
12 Water Purchase Agreement dated April 27, 2001. Such an arrangement was not
13 novel to ICRWUA as the Association already supplied water to its then-existing
14 service area from a well owned by a third party pursuant to a water purchase
15 agreement. Thus, Harvard agreed to transfer to ICRWUA all water infrastructure
16 necessary to serve Talking Rock Ranch except for wells, which would be retained
17 by Harvard.

18 In addition to retaining ownership of the wells, the MXA allowed Harvard
19 to supply its own water to the Golf Club for landscape irrigation, the filling of
20 lakes and other non-potable purposes. Specifically, Section 12(c) of the MXA
21 stated:

22 Utility acknowledges that Developer intends to construct the Golf
23 Course. Utility further acknowledges that Developer intends to
24 supply water to the Golf Course for landscape irrigation, the filling
25 of lakes and other non-potable purposes and hereby provides its
26 unconditional consent for Developer to supply water to the Golf
27 Course for such purposes. Utility further agrees to provide water
28 utility service to the Golf Course for landscape irrigation, the filling
of lakes and other non-potable purposes at a future date but only
upon receipt of Developer's written request at which time such
service would be provided consistent with the rules and regulations

1 of the Commission and Utility's Commission approved tariffs.
2 (MXA at page 10).

3 On August 2, 2001, Staff filed its report ("Staff Report") recommending
4 approval of the CC&N Application. With specific reference to the wells, the
5 Staff Report stated as follows:

6 Harvard also informed the ACC that "the parties have also entered
7 into a Water Purchase Agreement whereby Harvard will be
8 providing water to ICR at costs lower than the utility's current cost
9 of water."

10 On August 1, 2001, Harvard provided Staff with a copy of the April
11 27, 2001, Water Purchase Agreement between ICR and Harvard.
12 Harvard has drilled a well in the proposed extension territory and has
13 entered into an agreement with ICR to sell water to ICR at \$0.15 per
14 1,000 gallons, for resale to the ICR customers in Harvard's
15 development. (Staff Report at page 2).

16 The Commission approved the CC&N Application in Decision 64360
17 (Docket W-02824A-01-0450) dated January 15, 2002. However, the
18 Commission ordered that the parties modify the terms of the MXA so that
19 ICRWUA would own the wells used to supply water to Talking Rock Ranch.
20 Specifically, Finding of Fact 34 of Decision 64360 required that "Harvard should
21 include in its advance, the wells which it has drilled for the purpose of providing
22 water to the extension area described in Exhibit A to ensure that the utility has
23 adequate water for its customers and to ensure that they are not subject to relying
24 for their water on a third party over which the Commission lacks jurisdiction."
25 The Commission continued in Finding of Fact 35 that "[w]e believe that this
26 additional condition can be met by amending the [MXA] Agreement between the
27 parties," and required that ICRWUA "file a copy of the relevant documents
28 transferring ownership of the wells and related infrastructure within 365 days of
the effective date of this Decision." The Commission did not order the
modification of Section 12(c) of the MXA which permitted Harvard to supply its

own water to the Golf Club for landscape irrigation, the filling of lakes and other non-potable purposes.

After receiving a short extension of the deadline for compliance, ICRWUA filed a Notice of Compliance to Decision 64360 on March 7, 2003. As part of the compliance filing, ICRWUA submitted a First Amendment to the Main Extension Agreement dated February 25, 2003, (the "First Amendment") which provided for the immediate transfer of Production Well 3 to ICRWUA and the transfer of Production Well 2 to ICRWUA upon the 800th hookup in the Talking Rock Development. A copy of the First Amendment was attached to my Supplemental Rebuttal Testimony filed March 14, 2008.

Concurrently with the execution of the First Amendment, ICRWUA and Harvard entered into a Well Agreement dated February 25, 2003 ("Well Agreement") which set forth the terms and conditions governing the delivery of water to the Golf Club, which entailed Harvard wheeling water through ICRWUA's system in exchange for paying ICRWUA a wheeling fee and a percentage of the costs associated with running the water system. The Well Agreement incorporated the provisions of the MXA and the First Amendment. The Well Agreement was filed with the Commission as part of the Notice of Compliance dated March 7, 2003.

No objections were filed by Staff to the Notice of Compliance, and Staff approved the MXA and First Amendment on September 19, 2003.

Q. DID ICRWUA REASONABLY BELIEVE THAT IT HAD COMPLIED WITH THE REQUIREMENTS OF DECISION 64360?

A. Yes. Given that: (1) ICRWUA had submitted copies of the MXA, the First Amendment and the Well Agreement to the Commission as part of its Notice of Compliance; (2) Staff did not object to the March 7, 2003, Notice of Compliance; and (3) Staff approved the MXA and First Amendment on September 19, 2003, the Association reasonably believed that it was in full compliance with Decision

64360. In fact, the Commission's compliance database showed ICRWUA to be in full compliance at the time the Association filed its rate case in this docket. However, on January 15, 2008, Staff issued a letter of non-compliance in Docket W-02824A-01-0450, asserting that ICRWUA had not timely complied with Decision 64360 because Harvard failed to transfer a second well to the Association.

Q. HAS A SECOND WELL SINCE BEEN TRANSFERRED TO ICRWUA?

A. Yes. On May 21, 2008, Harvard transferred Production Well 2 to ICRWUA via a bill of sale recorded in Book 4598, Page 645, of the records of Yavapai County, Arizona. In addition, the Water Service Agreement provides for the transfer to ICRWUA of Production Well 1 within 15 days of the effective date of the agreement.

Q. AS A RESULT OF THE TRANSFER OF PRODUCTION WELL 2 TO ICRWUA, DO YOU BELIEVE THAT THE ASSOCIATION IS NOW IN FULL COMPLIANCE WITH DECISION 64360?

A. Yes. As I stated above, ICRWUA reasonably believed that it has been in full compliance with Decision 64360 since Staff approved the MXA and the First Amendment on September 19, 2003. However, I believe that the transfer of Production Well 2 removes all doubt.

Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE EVENTS THAT LED TO THE EXECUTION OF THE WATER SERVICE AGREEMENT.

A. On June 26, 2006, ICRWUA filed its rate application in this docket. A hearing on the rate application was scheduled for January 8, 2008. Staff filed Direct Testimony and Surrebuttal Testimony on November 30, 2007, and December 21 2007, respectively. Based upon these filings by Staff, ICRWUA and Staff were in substantial agreement—except for the rate design—and were prepared for hearing on January 8, 2008. On December 21, 2007, Dayne Taylor filed his

1 motion to intervene which was subsequently granted on January 8, 2008, the day
2 the hearing was to commence. The administrative law judge heard public
3 comment on January 8, 2008, but continued the hearing to April 16, 2008, in
4 order that the parties could file testimony related to issues raised by Mr. Taylor.
5 On April 3, 2008, the Golf Club sought and was granted intervention.

6 On February 1, 2008, Mr. Taylor filed his Direct Testimony in the rate
7 case. Mr. Taylor asserted that ICRWUA and the Talking Rock Parties had failed
8 to fulfill the requirements of Decision 64360, and as a result, the Association did
9 not have the legal right to provide water to the Golf Club. Specifically, Mr.
10 Taylor asserted that the Talking Rock Parties had failed to convey wells to
11 ICRWUA as required by Decision 64360, that ICRWUA was not charging the
12 Golf Club tariffed rates for water delivered, and that domestic demand did not
13 have a priority over the demand of the Golf Club. Mr. Taylor also raised
14 questions regarding the air content of the water supplied by the wells, and
15 whether the wells could produce adequate water to supply the domestic demand
16 and the Golf Club demand at full build-out of Talking Rock Ranch.

17 On March 14, 2008, Staff filed the Amended Direct Testimonies of
18 witnesses Charles Myhlhousen and Jian Liu. In Mr. Myhlhousen's testimony, he
19 recommended, among other things, an adjustment to increase test year revenue by
20 \$114,290, to impute the amount of revenue which he believed should have been
21 collected from the Golf Club for water delivered from Production Well 3 owned
22 by ICRWUA. Mr. Liu asserted that ICRWUA had not achieved compliance with
23 Decision 64360 because a second well had not been transferred to the
24 Association.

25 Beyond the issues raised by Mr. Taylor and Staff, the ICRWUA board of
26 directors had identified certain issues related to the operation of the MXA, as
27 amended by the First Amendment, and the Well Agreement. In an effort to
28 address the issues raised by Staff and Mr. Taylor in the rate case, as well as other

1 issues of concern to the board, ICRWUA and the Talking Rock Parties agreed to
2 meet and discuss a "special contract" for water supplied to the Golf Club which
3 would modify and supersede the existing suite of agreements which governed the
4 relationship; namely, the MXA, the First Amendment and the Well Agreement.
5 The concept of a new special contract to supersede the existing arrangement was
6 discussed with Staff, and ICRWUA received a favorable reaction.

7 **Q. WHAT HAPPENED NEXT?**

8 As an initial step toward a special contract, ICRWUA and the Talking Rock
9 Parties met and negotiated a non-binding letter of understanding ("LOU") dated
10 April 18, 2008. The purpose of the LOU was to set forth and outline the basic
11 terms of a special contract, which would be incorporated into a binding document
12 executed by ICRWUA and the Talking Rock Parties. A copy of the LOU was
13 mailed to all customers of ICRWUA on or about May 12, 2008, together with a
14 short explanatory statement and notice of a public meeting to discuss the LOU at
15 7:00 PM on June 3, 2008, in the multipurpose room of the local Judd Elementary
16 School. The Association also published notice of the June 3, 2008 special
17 meeting in the Prescott Courier.

18 On May 20, 2008, representatives of the Association's board of directors
19 met with Mr. Taylor and a group of residents in Prescott to discuss the LOU. On
20 May 29, 2008, representatives of ICRWUA met with Mr. Taylor and Staff in
21 Phoenix to discuss the LOU. Then, on June 3, 2008, the Association's board held
22 the special meeting to give customers a presentation regarding the LOU and the
23 board's rationale for pursuing a special contract with the Talking Rock Parties.
24 The board also provided Mr. Taylor with the opportunity to make his own
25 presentation at the meeting, which he did make. In addition, the board sent
26 explanatory letters regarding the LOU and the board's efforts to negotiate a
27 special contract to customers on May 12, May 19, and May 27, 2008. Copies of
28

these letters were filed in the docket in this case by ICRWUA on June 6, 2008. Other informal communications occurred with the Association's customers.

Throughout the summer of 2008, ICRWUA and the Talking Rock Parties negotiated, exchanged many drafts and met together on the special contract. The negotiations were forthright and robust. On or about August 29, 2008, ICRWUA and the Talking Rock Parties reached agreement on a new special contract, which is memorialized in the Water Service Agreement. That same day, the draft WSA was sent to Staff and Mr. Taylor via e-mail requesting review and comment. ICRWUA also proposed a meeting or conference call among the parties to discuss the draft WSA and address any comments or concerns that Staff or Mr. Taylor might have. On September 11, 2008, ICRWUA hosted a conference call with Staff's legal counsel, Mr. Taylor, and legal counsel for the Talking Rock Parties to solicit input regarding the draft WSA and to discuss any questions, comments or concerns that Mr. Taylor or Staff might have regarding the draft WSA. Staff counsel and Mr. Taylor both stated that they would provide their comments regarding the draft WSA after it was signed and submitted to the Commission. ICRWUA and the Talking Rock Parties executed the Water Service Agreement on September 12, 2008, and filed a copy of the agreement with the Commission.

Q. WHAT DOES THE WATER SERVICE AGREEMENT ACCOMPLISH?

A. The Water Service Agreement is intended to accomplish the following:

- (1) resolve and settle concerns raised by Mr. Taylor, Staff and the Association's board regarding the existing suite of agreements between ICRWUA and the Talking Rock Parties (*i.e.*, the MXA, First Amendment and Well Agreement)
- (2) achieve compliance with Decision 64360, to the extent that compliance has not previously been achieved;
- (3) supersede, replace and terminate the existing agreements between ICRWUA and the Talking Rock Parties, except for certain provisions specifically identified in the Water Service Agreement;
- (4) keep the

1 Golf Club on the water system, thereby providing significant financial benefits to
2 the Association and its customers; and (5) govern the relationship between
3 ICRWUA and the Talking Rock Parties going forward from the date of approval
4 by the Commission until the expiration of the WSA according to its terms and
5 conditions.

6 **Q. PLEASE DISCUSS THE SPECIFIC BENEFITS OF THE WATER**
7 **SERVICE AGREEMENT TO ICRWUA AND ITS CUSTOMERS.**

8 A. Of the many benefits of the Water Service Agreement to ICRWUA and its
9 customers, one of the biggest must be that the Golf Club will remain on the
10 Association's water system as a special contract customer. Since the Talking
11 Rock Parties own one or more other wells that could be used by the Golf Club to
12 self-supply water to the golf course, the Association must recognize the
13 possibility that the Golf Club could disconnect from the Association's water
14 system. The revenue that will be received by ICRWUA from the Golf Club
15 under the Water Service Agreement will substantially reduce the size of the
16 requested rate increase in this case. Mr. Bourassa addresses the impact of the
17 Water Service Agreement on the rate request in his Additional Supplemental
18 Testimony filed contemporaneously with my testimony.

19 Additional benefits of the Water Service Agreement to ICRWUA and its
20 customers include the following:

- 21 • Transfer of Production Well 1. Section 2(a) of the Water Service
22 Agreement provides for the immediate transfer of the remaining equipped well
23 owned by the Talking Rock Parties—Production Well 1—to ICRWUA. That
24 means that the Association will own all three of the equipped wells connected to
25 the water system that serves Talking Rock Ranch. Production Well 1 will be
26 transferred without condition, subject only to the terms of the WSA. See WSA §
27 2(a). Pursuant to Section 2(c)(i) of the WSA, the Talking Rock Parties will
28

warrantee Production Well 1 for a period of one year from the date the well is transferred to ICRWUA. *See* WSA § 2(c)(i).

- Production Well 2 Pump Motor Replacement. Under Section 2(b) of the WSA, the Talking Rock Parties will pay the actual cost of purchasing and installing a new pump motor at Production Well 2, up to a maximum cost of \$50,000. In addition, the Talking Rock Parties will warrantee the pump motor in Production Well 2 for a period of one year from the date of installation. *See* WSA § 2(c)(ii).

- Air Production Warranty. Under Section 2(c)(iii) of the WSA, the Talking Rock Parties warrantee during the applicable warranty period that the maximum allowable air production in water withdrawn from Production Well 1 and Production Well 2 will not exceed 3.5%, expressed as a percent of unit volume of water produced from each well at atmospheric pressure. Air production is measured using the procedure set forth in Attachment 1 to the WSA. If the maximum allowable air production is exceeded during the applicable warranty period, then the Talking Rock Parties must take action under the WSA, in consultation with ICRWUA, to reduce the air production at the Talking Rock Parties' sole cost and expense. *See* WSA § 2(c)(iii).

- Waiver of Prior Restrictions. Under Section 2(d) of the WSA, the Talking Rock Parties waive and release all restrictions on the amount and rate of water that may be pumped from Production Well 2 and Production Well 3 which are contained in the respective bills of sale for those wells.

- Residential Priority. Section 5 of the WSA makes clear that the residential delivery of water pumped from Production Well 1, Production Well 2 and Production Well 3 has priority over all other use classifications included uses by the Talking Rock Parties, including the Golf Club.

- System Reservation Charge. Under Section 6(a) of the WSA, the Talking Rock Parties agree to pay a new charge identified as the "System Reservation

Charge" for a period of 10 years. The Talking Rock Parties will pay \$340,000 in System Reservation Charges during the first 10 years of the WSA. The Talking Rock Parties must pay the System Reservation Charges whether they receive any water from ICRWUA. Mr. Bourassa provides additional testimony regarding the System Reservation Charge in his Additional Supplemental Testimony.

• Commodity Charge. In addition to the System Reservation Charges, the Talking Rock Parties must pay a commodity charge for each 1,000 gallons of water delivered by ICRWUA. The commodity charge is designed in a manner intended to allow ICRWUA to recover its cost of service under the WSA, plus an appropriate operating margin. The commodity charge begins at \$1.00 and is increased annually based upon the average annual Consumer Price Index—All Urban Consumers: Area-West Urban (the "CPI Index") issued by the U.S. Bureau of Labor Statistics. See WSA § 6(b). In addition to annual adjustment based on the CPI Index, the commodity charge is subject to adjustments in the event that: (1) new Federal, State or County water treatment standards or requirements are adopted which increase ICRWUA's capital and/or operational costs of treating water delivered through the water system which serves Talking Rock Ranch; or (2) groundwater withdrawn by ICRWUA from Production Well 1, Production Well 2 or Production Well 3 becomes contaminated with any pollutant regulated by Federal, State or County entities which increases ICRWUA's capital and/or operational costs of treating water delivered through the water system which serves Talking Rock Ranch. In addition to these adjustments, there is one other failsafe to protect ICRWUA and its customers from unanticipated changes in the costs of providing water service to the Talking Rock Parties. Pursuant to Section 6(b)(iv) of the Water Service Agreement, on or after the seventh anniversary of the effective date of the WSA, the parties may request a cost of service study to evaluate whether the commodity charge continues to cover ICRWUA's cost of

service for supplying water to the Talking Rock Parties. This provision provides significant additional protection for ICRWUA and its customers.

- Annual Notice Filing. In order to ensure that the Commission remains apprised of the commodity charge throughout the term of the WSA, ICRWUA must notify the Commission's Utilities Division of each annual change in the commodity charge. *See* WSA § 2(b)(v).

- Financial Assistance. In order to help defray ICRWUA's costs of negotiating the Water Service Agreement, the Talking Rock Parties agreed to pay \$30,000 to the Association at the time of execution of the WSA with an additional \$50,000 following the Commission's approval of the WSA. *See* WSA § 7.

- Water Conservation. Pursuant to Section 10 of the WSA, the Talking Rock Parties agree to continue to use reasonable efforts to promote conservation within Talking Rock Ranch and to minimize the use of groundwater for landscape irrigation, lake fill and other non-potable purposes.

- No Right to Challenge Withdrawals of Groundwater by ICRWUA. Under Section 14(a) of the WSA, the Talking Rock Parties waive their right to challenge ICRWUA's withdrawal of groundwater from Production Well 1, Production Well 2 and Production Well 3.

- Golf Club as a Special Contract Customer of ICRWUA. Recital O of the WSA makes clear that the Golf Club is a special contract customer of ICRWUA.

These are not all of the benefits of the Water Service Agreement to ICRWUA and its customers, but are among the more important benefits.

1 **Q. IS IT YOUR OPINION THAT THE WATER SERVICE AGREEMENT**
2 **PROVIDES SUBSTANTIAL BENEFITS TO ICRWUA AND ITS**
3 **CUSTOMERS, AND THAT THE WSA SHOULD BE APPROVED BY THE**
4 **COMMISSION?**

5 **A. Yes.** As the manager of ICRWUA's water system, I am confident that the Water
6 Service Agreement is a very good agreement for the Association and its
7 customers, and that it will provide significant benefits.

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A. Yes.**

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ATTACHMENT A

WATER SERVICE AGREEMENT

This Water Service Agreement ("Agreement") is fully executed this 12th day of September, 2008, by and between ICR Water Users Association, Inc., an Arizona public service corporation ("ICRWUA"), Harvard Simon I, LLC ("Harvard Simon"), Talking Rock Land, L.L.C., an Arizona limited liability company ("TRL") and Talking Rock Golf Club, L.L.C., an Arizona limited liability company ("TRGC"). The parties may be referred to collectively herein as the "Parties" or individually as a "Party," and one, two or all three of "Harvard Simon", "TRL" and "TRGC" may be referred to collectively as the "Talking Rock Parties". The Parties do hereby enter into this Agreement for the purpose of seeking approval of the Arizona Corporation Commission ("ACC") to: (1) resolve and settle the Parties' respective concerns over their existing agreements and compliance with ACC Decision No. 64360 (January 15, 2002); (2) supersede, replace and terminate any and all existing agreements between the Parties, except for certain provisions specifically identified herein; and (3) govern the Parties' relationship from the time of final ACC approval, if obtained, until the expiration of this Agreement according to its express terms.

RECITALS

A. The Talking Rock master planned community ("Talking Rock") is located in Yavapai County, Arizona. Talking Rock contains approximately 3,100 acres and, at build-out, will include roughly 1,600 homes. Talking Rock also includes common areas, a clubhouse, a health and fitness center and an 18-hole golf course ("Golf Course") owned and operated by TRGC.

B. Harvard Simon and ICRWUA entered into that certain Main Extension Agreement, dated March 5, 2001, ("MXA") pertaining to the extension of water utility service to Talking Rock. Under the MXA, Harvard Simon was obligated to finance, construct and transfer title to all on-site and off-site facilities necessary for ICRWUA to provide water utility service to Talking Rock. The MXA sets forth ICRWUA's "unconditional consent" for Harvard Simon to supply water to the Golf Course for "landscape irrigation, the filling of lakes and other non-potable purposes." The MXA also sets forth that ICRWUA "agrees to provide water utility service to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes at a future date but only upon receipt of [Harvard Simon's] written request at which time such service would be provided consistent with the rules and regulations of the Commission and Utility's Commission approved tariffs."

C. Harvard Simon and ICRWUA entered into that certain Water Purchase Agreement dated April 27, 2001 ("WPA"). TRL had previously obtained a well site that could be used to serve Talking Rock and conducted test drilling. Pursuant to the WPA, Harvard Simon agreed to supply water from one or more wells drilled or to be drilled at this well site to ICRWUA on a wholesale basis to be used by ICRWUA for all purposes, excluding water service for landscape irrigation, lake fill, construction and other non-potable purposes.

D. On January 15, 2002, the ACC issued Decision No. 64360 extending ICRWUA's CC&N to include Talking Rock, subject to the condition that Harvard Simon transfer to ICRWUA "the wells which it has drilled for the purpose of providing water to the extension area

... to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying for their water on a third party over which the Commission lacks jurisdiction."

E. ICRWUA, Harvard Simon and TRGC entered into that certain Well Agreement dated February 25, 2003 ("Well Agreement"). Pursuant to the Well Agreement, Harvard Simon and TRGC agreed to transfer two wells in Talking Rock to ICRWUA: Production Well No. 2 ("Well 2") and Production Well No. 3 ("Well 3"). The Well Agreement further provided that a third well, Production Well No. 1 ("Well 1") (collectively, Well 1, Well 2 and Well 3 will be referred to as the "Talking Rock Wells"), had been drilled and that TRGC would retain title to Well 1 and continue to use water from wells that it or its affiliates owned to provide its own water for landscape irrigation, lake fill, construction and other non-potable purposes. The Well Agreement superseded, replaced and terminated the WPA.

F. ICRWUA and Harvard Simon entered into that certain First Amendment to Main Extension Agreement on February 25, 2003 ("First Amendment to MXA"). The First Amendment modified the MXA such that Well 2 and Well 3 would be included in the Talking Rock Parties advances in aid of construction. All other aspects of the MXA were left in full force and effect, with the Talking Rock Parties remaining obligated to finance and construct the water system necessary for (1) ICRWUA to serve customers residing within Talking Rock; and (2) the Talking Rock Parties to serve themselves and satisfy landscape irrigation, lake fill, construction and other non-potable water demand with water from the wells owned by the Talking Rock Parties.

G. On March 7, 2003, ICRWUA filed the Well Agreement and the First Amendment to MXA with the ACC for the purpose of complying with Decision 64630. The ACC Staff approved both the MXA and First Amendment to MXA on September 19, 2003. The Parties have relied on the express language of the Well Agreement and MXA, as amended, in connection with their development activities and operation of the Golf Course.

H. Harvard Simon assigned its rights and interest in the Well Agreement to TRL pursuant to that certain Assignment and Assumption of Well Agreement dated October 9, 2003. The Talking Rock Parties then executed the First Amendment to Well Agreement dated October 23, 2003 correcting the name to Talking Rock Golf Club, L.L.C.

I. Harvard Simon transferred Well 3 to ICRWUA pursuant to that certain Bill of Sale (Production Well) dated October 28, 2003 ("Well 3 Bill of Sale") recorded in Book 4088, Page 386, records of Yavapai County, Arizona.

J. ICRWUA and TRL entered into that certain Second Amendment to Well Agreement ("Second Amendment to Well Agreement") on September 15, 2005. Under the Second Amendment to Well Agreement, TRL agreed to provide additional water supply at its own expense in the event production from Well 3 was inadequate to meet demand from customers in Talking Rock before service to the 800th lot was extended.

K. On June 26, 2007, ICRWUA filed an application for rate increases with the ACC, ACC Docket No. W-02824A-07-0388. On April 3, 2008, TRGC moved to intervene in ICRWUA's rate case. TRGC asserted that it had a direct and substantial interest in the

proceeding as a result of the positions taken by other parties to the proceeding. TRGC was granted intervention on April 3, 2008.

L. On April 14, 2008, ICRWUA's rate case was delayed to allow ICRWUA and TRGC an opportunity to negotiate an agreement that would address the Parties' concerns over claims and position taken in ICRWUA's rate case. ICRWUA and TRGC entered into that certain Letter of Understanding ("LOU") on April 18, 2008.

M. TRGC transferred Well 2 to ICRWUA pursuant to that certain Bill of Sale (Production Well) dated as of May 21, 2008, ("Well 2 Bill of Sale") recorded in Book 4598, Page 645, records of Yavapai County, Arizona.

N. By this Agreement, the Parties intend to (1) resolve and settle the Parties' concerns over their existing agreements and compliance with Decision 64630; (2) supersede, replace and terminate all existing agreements between the Parties, except for certain provisions specifically identified herein; and (3) govern the Parties' relationship from the time of final ACC approval of this Agreement, if obtained, until the expiration of this Agreement according to its express terms.

O. Subject to the terms and conditions of this Agreement, TRGC will be a special contract customer of ICRWUA.

AGREEMENTS

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Incorporation of Recitals. By this reference, the Parties hereby incorporate the recitals above as part of their agreement as if fully set forth herein.

2. Well 1 Transfer; Well 2 Pump Motor Replacement; Warranties; Waiver of Prior Restrictions; Use of Talking Rock Wells.

a. Well 1 Transfer. Within fifteen (15) days of the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall transfer Well 1 to ICRWUA via bill of sale ("Well 1 Bill of Sale") in a form mutually satisfactory to the Parties, without condition, and subject only to the terms and conditions set forth herein.

b. Well 2 Pump Motor Replacement. After the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall pay the actual cost of purchasing and installing a new pump motor at Well 2 ("Well 2 Pump Motor Replacement") up to a maximum cost of \$50,000. ICRWUA shall be responsible for identifying the make and model of the new pump motor and arranging for the installation of the pump motor. ICRWUA shall provide the Talking Rock Parties with an invoice specifying the cost of the Well 2 Pump Motor Replacement, and the Talking Rock Parties shall pay the invoice (up to a maximum of \$50,000) within ten (10) business days of the date of receipt of the invoice from ICRWUA.

c. Warranties. The Talking Rock Parties shall provide the warranties in this Section against construction defects, manufacturing defects and defects in workmanship, but such warranties do not cover the negligent or intentional acts of ICRWUA, its employees, agents, contractors or representatives.

i. Well 1. For a period of one (1) year from the date of the Well 1 Bill of Sale (the "Well 1 Warranty Period"), the Talking Rock Parties shall warrant (i) the workmanship and construction of Well 1, including without limitation, the well casing; and (ii) the pump motor, bowls and related components of Well 1.

ii. Well 2. For a period of one (1) year from the date of installation of the Well 2 Pump Motor Replacement (the "Well 2 Pump Motor Replacement Warranty Period") as required in Section 2(b) above, the Talking Rock Parties shall warrant the Well 2 Pump Motor Replacement against any and all defects in manufacturing and workmanship.

iii. Air Production. The Talking Rock Parties agree that the maximum allowable air production ("Air Production") in water withdrawn from Well 1 and/or Well 2, expressed as a percent of unit volume of water produced from each well at atmospheric pressure, shall not exceed three point five percent (3.5%) (the "Maximum Allowable Air Production"). The Talking Rock Parties shall warrant the Maximum Allowable Air Production (the "Air Production Warranty Period") for Well 1 during the Well 1 Warranty Period and for Well 2 during the Well 2 Pump Motor Replacement Warranty Period; provided, however, that if the Air Production Warranty Period for either Well 1 or Well 2 will expire on or after April 15 but on or before September 15 of the same calendar year, then the Air Production Warranty Period for such well shall be extended through and including September 15 of that calendar year. If the Air Production of Well 1 or Well 2 exceeds the Maximum Allowable Air Production during the Air Production Warranty Period, then ICRWUA shall notify the Talking Rock Parties of such occurrence in writing, and the Talking Rock Parties shall take such actions, in consultation and agreement with ICRWUA, as are necessary to reduce the Air Production at Well 1 and/or Well 2 to a level at or below the Maximum Allowable Air Production at the Talking Rock Parties' sole cost and expense. Air Production shall be measured using the procedure established during the test of the Talking Rock Wells (as hereinafter defined) as summarized in Attachment 1, which is incorporated herein as part of this Agreement.

d. Waiver of Prior Restrictions. The Talking Rock Parties hereby waive and release all restrictions on the amount and rate of water that may be pumped from Well 2 and Well 3 which are contained in the Well 2 Bill of Sale and the Well 3 Bill of Sale.

3. Use of Talking Rock Wells and the Well Field Property.

a. Perpetual Right to Enter the Well Field Property; No Charges to ICRWUA for Groundwater Withdrawn. The Talking Rock Parties will retain ownership of the real property upon which the Talking Rock Wells are located (the "Well Field Property"), but hereby grant to ICRWUA a perpetual right to enter the Well Field Property at any time day or night to operate, test, inspect, repair, replace and maintain the Talking Rock Wells. The legal description for the Well Field Property is attached hereto as Attachment 2. The Talking Rock Parties further agree that ICRWUA may pump the Talking Rock Wells and withdraw groundwater in quantities

necessary for ICRWUA to provide water service to its current and future customers on the Talking Rock water system subject to the terms of this Agreement and without any charge to ICRWUA for the groundwater withdrawn or for the rights granted to ICRWUA under this Agreement. The Talking Rock Parties further agree, on behalf of themselves and their respective successors and assigns, that they shall not construct or permit the construction of any additional wells on the Well Field Property or the equipping and use of the existing fourth well on the Well Field Property by any person or entity other than ICRWUA, subject only to ICRWUA's right to drill one or more replacement wells on the Well Field Property. The Parties intend that the rights of ICRWUA granted under this Section 3 shall run with the land and shall survive the expiration or termination of this Agreement, and the Parties agree that they will execute such additional documents, in recordable form, as may be deemed necessary to ensure that the rights granted to ICRWUA hereunder run with the Well Field Property.

b. Operation of the Talking Rock Wells. ICRWUA agrees that it will, at all times following the transfer of Well 1, operate, test, inspect, repair, replace and maintain the Talking Rock Wells at its own expense and in a manner that complies with Arizona and federal laws and that fulfills both its obligations under its CC&N and under this Agreement. ICRWUA further acknowledges and agrees that water from the Talking Rock Wells will only be used to serve its customers on the Talking Rock water system and for purposes of this Agreement, and that such restriction arises from recorded deed restrictions put in place by the seller of the Well Field Property whereon the Talking Rock Wells are located.

4. Service of Water for Landscape Irrigation, Lake Fill, Construction and Other Non-Potable Purposes; Maximum Amount; No Minimum Delivery; Quantity Required. ICRWUA agrees to and will deliver water to any and all of the Talking Rock Parties up to a maximum amount of 525 acre feet of water per year, of which a maximum of 400 acre-feet of water can be used at the Golf Course for Landscape Irrigation, Lake Fill and other non-potable purposes, and a maximum of 125 acre-feet of water can be used for Construction Purposes by any of the Talking Rock Parties in the development of Talking Rock, subject to the terms and conditions set forth in this Agreement. The Talking Rock Parties shall not be required to take any minimum amount of water under this Agreement, and retain the right to provide their own water supply without any provision by ICRWUA as long as such self-supply is not in violation of Arizona and/or federal law; provided, however, that ICRWUA shall remain solely responsible for supplying water to customers of ICRWUA within Talking Rock requesting water service from ICRWUA. The term "Landscape Irrigation" when used in this Agreement means the irrigation of any and all landscaping located anywhere within the Golf Course, whether such landscaping is turf or non-turf, and without regard to whether the water is delivered through sprinklers or drip irrigators or other means. The term "Lake Fill" when used in this Agreement means the filling of any water retention structures within the Golf Course, including decorative water features and holding ponds for Landscape Irrigation. The term "Construction Purposes" when used in this Agreement means water used by the Talking Rock Parties within Talking Rock for grading and compaction, installation of subdivision infrastructure, construction of structures (excluding residential home construction), and related uses.

5. Residential Priority; Curtailment of Water Service to Talking Rock Parties. Residential delivery of water pumped from the Talking Rock Wells shall have priority (the "Residential Priority") over all other use classifications including uses by the Talking Rock

Parties under this Agreement; provided, however, that curtailment ("Curtailment") in order to meet the Residential Priority shall occur only when there is insufficient water production from the Talking Rock Wells, in aggregate, to meet both the demand from residential customers and the demand from non-residential customers at Talking Rock (a "Water Shortage"), and shall continue only so long as the Water Shortage continues. During any Curtailment, ICRWUA shall make reasonable efforts to meet, in part, the demand from the Talking Rock Parties after ICRWUA fully meets the Residential Priority, and to resume normal water service to the Talking Rock Parties under this Agreement as soon as is practicable.

6. Payment for Water Service. The amount the Talking Rock Parties shall pay for water delivered by ICRWUA under this Agreement shall consist of (i) a System Reservation Charge, which shall terminate after ten (10) years; and (ii) a Commodity Charge, which shall be subject to annual adjustment, as set forth below in this Section. In accordance with Section 11 of this Agreement, the Parties agree that the ACC must approve the charges and the Commodity Charge-setting methodology set forth herein for the term of this Agreement.

a. System Reservation Charge. For a period of ten (10) consecutive years following the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall pay to ICRWUA a fixed, annual charge ("System Reservation Charge") as set forth below in this Section. The Talking Rock Parties shall pay the System Reservation Charge whether or not they receive any water from ICRWUA, and the System Reservation Charge shall be in addition to the Commodity Charge, which is payable under Section 6(b) below. The System Reservation Charges are as follows:

| | | |
|-------|------------|----------|
| i. | Year One: | \$50,000 |
| ii. | Year Two | \$50,000 |
| iii. | Year Three | \$50,000 |
| iv. | Year Four | \$40,000 |
| v. | Year Five | \$40,000 |
| vi. | Year Six | \$30,000 |
| vii. | Year Seven | \$30,000 |
| viii. | Year Eight | \$20,000 |
| ix. | Year Nine | \$20,000 |
| x. | Year Ten | \$10,000 |

b. Commodity Charge. In addition to the System Reservation Charge payable under Section 6(a) above, the Talking Rock Parties shall pay a commodity charge ("Commodity Charge") initially set at One dollar (\$1.00) per 1,000 gallons of water delivered by ICRWUA to the Talking Rock Parties which Commodity Charge shall be subject to adjustment in accordance with the provisions of this Section 6(b).

i. Basis for Calculation. The Parties have agreed to the Commodity Charge in order to allow ICRWUA to recover its cost of service under this Agreement, plus an

appropriate operating margin. In calculating the Commodity Charge set forth in this Section 6(b), the Parties utilized the 2006 volume of water delivered through the Talking Rock water system to the Talking Rock Parties. The Parties have also relied on ICRWUA's Cost of Service Study filed in ACC Docket No. W-02824A-07-0388.

ii. Annual Adjustment. The Commodity Charge shall be subject to annual adjustment based on the average annual Consumer Price Index - All Urban Consumers: Area-West Urban issued by the US Bureau of Labor Statistics (the "Index"). Beginning one year after the Effective Date, the Commodity Charge for a Current Year, as hereinafter defined, shall be computed each year by multiplying the Commodity Charge for the Base Year, which is \$1.00 as set forth in this Section 6(b), by a factor computed by dividing the Index for the most recent full year reported by the Bureau by the Index for the Base Year, rounded to the nearest penny. The Base Year shall be the year of the Effective Date of the Agreement. The Current Year shall be the year in which the annual adjustment is to be made. The adjustment shall be made annually for the term of the Agreement commencing one year after the Effective Date as defined in Section 11(c). By way of illustration only, if the Base Year Index is 208 and the Current Year Index is 215, then the adjustment factor would be 1.0337 ($215 \div 208 = 1.0337$). The new Commodity Rate for the Current Year would be \$1.03 ($\$1.00 \times 1.0337 = \1.03 (rounded to the nearest penny)).

iii. Adjustment for Costs to Comply with New Treatment Requirement or Groundwater Contamination.

(1) In the event that any Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48) imposes upon ICRWUA any new rule, requirement, regulation, ordinance, judgment, order or similar decree (collectively, a "New Treatment Requirement") which: (a) increases ICRWUA's capital and/or operational costs of treating water delivered through the Talking Rock water system; and (b) was not in effect as of the date this Agreement was signed, then the Parties shall immediately meet and confer and make an equitable adjustment to the Commodity Rate in order that ICRWUA is reimbursed for the Talking Rock Parties' allocable share (based upon volume of water delivered to the Talking Rock Parties during the most recent three-year rolling average) of the increased costs resulting from ICRWUA's compliance with the New Treatment Requirement.

(2) In the event that the groundwater withdrawn by ICRWUA from the Talking Rock Wells becomes contaminated ("Contamination") with any pollutant regulated by any Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48) and such Contamination requires additional treatment and/or remediation ("Treatment and Remediation") by ICRWUA which: (a) increases ICRWUA's capital and/or operational costs of delivering water through the Talking Rock water system; and (b) was not required as of the date this Agreement was signed, then the Parties shall immediately meet and confer and make an equitable adjustment to the Commodity Rate in order that ICRWUA is reimbursed for the Talking Rock Parties' allocable share (based upon volume of water delivered to the Talking Rock Parties during the most recent three-year rolling average) of the Treatment and Remediation costs resulting from the Contamination.

(3) The Talking Rock Parties shall only be responsible for

payment of an allocable share of the costs of complying with a New Treatment Requirement or any Treatment and Remediation costs under this Section to the extent that ICRWUA cannot physically separate potable water deliveries to Talking Rock from the delivery of water to the Talking Rock Parties under this Agreement; provided, however, that ICRWUA shall have no obligation to invest capital in a system that can separate the delivery of potable and non-potable water supplies.

iv. Future Cost of Service Study and Adjustment to Commodity Charge. On or after the seventh (7th) anniversary of the Effective Date of this Agreement as defined in Section 7(c) below, any Party may request in writing that a cost of service study ("COSS") be completed in order to evaluate whether the Commodity Charge continues to cover ICRWUA's cost of service for supplying water to the Talking Rock Parties under this Agreement plus an appropriate operating margin, which is the basis for establishing the initial Commodity Charge under Section 6(b)(i) above. The Parties shall mutually agree upon a certified public accountant with at least ten year's public utility accounting experience to prepare the COSS. One-half of the cost of the COSS shall be paid by ICRWUA and one-half of the COSS shall be paid by the Talking Rock Parties. The COSS shall be prepared in a manner consistent with the process used to determine the Commodity Charge as set forth in Section 6(b)(i) above. Within fifteen (15) days after the COSS has been provided to the Parties, the Parties shall meet and mutually agree upon an appropriate modification to the Commodity Charge based upon the COSS, with the understanding that the Commodity Charge shall cover ICRWUA's cost of service for supplying water to the Talking Rock Parties under this Agreement plus an appropriate operating margin.

v. Notice Filing. ICRWUA shall notify the ACC Utilities Division Staff of each annual change in the Commodity Charge.

c. Meter Reading; Access to Meters. On a monthly basis, ICRWUA shall provide the Talking Rock Parties with meter readings, and upon request shall also furnish water production and usage data, sufficient to allow the Talking Rock Parties to confirm the amount of water pumped from the Talking Rock Wells and the amount of water delivered from the Talking Rock Wells to the Talking Rock Parties under this Agreement. The Talking Rock Parties shall allow representatives of ICRWUA reasonable access to property owned and/or controlled by the Talking Rock Parties as necessary for ICRWUA to read the water meters. The Talking Rock Parties may request that ICRWUA calibrate and adjust the meter recording devices under this Agreement not more frequently than once per calendar year, at the cost of the Talking Rock Parties, unless the meter is found to be in error by more than 3%, in which event no costs of the meter reading and repair shall be charged to the Talking Rock Parties.

d. Billing and Timing of Payment; Point of Contact. The System Reservation Charge for Year One shall be paid within thirty (30) days of the Effective Date of this Agreement as defined in Section 11(c) below and paid annually thereafter on the anniversary of the Effective Date according to the schedule in Section 6(a) above. Commodity Charges shall be billed by ICRWUA and paid by the Talking Rock Parties on a monthly basis. The Talking Rock Parties shall identify a single point of contact ("Point of Contact") for receipt of all invoices to the Talking Rock Parties under this Agreement and shall notify ICRWUA in writing of the identify of the Point of Contract at the address set forth in Section 14(f) below. The Point

of Contact shall be responsible for remitting payment on behalf of the Talking Rock Parties for all invoices received by the Talking Rock Parties. Late fees shall be assessed in accordance with ICRWUA's tariff.

e. No Other Charges. ICRWUA agrees that it will not bill or otherwise require payment from the Talking Rock Parties for water for purposes of Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes except as provided for in this Agreement. This Agreement does not relate to or impact the rates and charges for water service by ICRWUA to the existing customers of the Talking Rock water system that are subject to ICRWUA's ACC approved tariff of rates and charges, including, for example, the Talking Rock health and fitness center and clubhouse.

7. Financial Assistance. In order to help defray ICRWUA's costs to negotiate and obtain approval of this Agreement, upon execution of this Agreement the Talking Rock Parties shall pay ICRWUA the amount of \$30,000. Within thirty (30) days of the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall pay ICRWUA an additional \$50,000.

8. Additional Well(s); Additional Transmission Facilities; Ownership and Operation; Operating Expenses and Commodity Charge; Use and Severance.

a. Additional Wells and Additional Transmission Facilities. Upon receipt of the prior written consent of ICRWUA, the Talking Rock Parties may drill, equip and interconnect one or more additional wells (i.e., wells other than the Talking Rock Wells) ("Additional Well(s)") to the Talking Rock water system via the existing transmission system, if reasonable and prudent to do so, and/or via additional transmission facilities ("Additional Transmission Facilities") constructed by or for the Talking Rock Parties in order to supply water for Landscape Irrigation, Lake Fill, Construction Purposes and/or other non-potable purposes in Talking Rock. No consent is required unless the Talking Rock Parties request the interconnection of the Additional Well(s) and/or Additional Transmission Facilities to the Talking Rock water system. If consent is required, ICRWUA shall provide such consent within thirty (30) business days following written request by the Talking Rock Parties; provided, that each Additional Well(s) and/or Additional Transmission Facilities meet the following conditions:

i. New Source Approval Requirements. If the Talking Rock Parties utilize the Talking Rock delivery system as currently configured, which precludes separation of potable and non-potable water supplies for delivery to Talking Rock, then each Additional Wells(s) shall meet new source approval requirements applicable to ICRWUA's use of that Additional Well(s), as such requirements are codified in Federal, State and County (excluding any special taxing district established under A.R.S. Title 48) law. In the event that new transmission facilities are constructed by the Talking Rock Parties or are otherwise available which allow for the separation of potable and non-potable water supplies delivered to Talking Rock, then the Additional Well(s) will not have to meet new source approval requirements; provided, however, that ICRWUA shall have no obligation to invest capital in a system that can separate the delivery of potable and non-potable water supplies.

ii. Engineering and Permitting. The Additional Transmission

Facilities meet all applicable engineering standards, including those of ICRWUA, and permitting requirements;

iii. Non-Interference. The Additional Well(s) and Additional Transmission Facilities shall not unreasonably interfere with ICRWUA's operation of its Talking Rock water system.

b. Ownership and Operation; Easement and/or Legal Right of Access. The Talking Rock Parties shall retain ownership of any Additional Well(s) and Additional Transmission Facilities. After interconnection of each Additional Well(s) and Additional Transmission Facilities to ICRWUA's Talking Rock water system, such wells and facilities shall at all times be operated, tested, inspected, repaired and maintained by ICRWUA at ICRWUA's sole expense; provided, however, that nothing contained herein shall require ICRWUA to replace any Additional Well(s) or any Additional Transmission Facilities. The Talking Rock Parties agree that ICRWUA may pump any Additional Well(s) and withdraw groundwater subject to the terms of this Agreement without any charge to ICRWUA for the groundwater withdrawn, as long as such pumping does not interfere with delivery of water from such Additional Well(s) to Talking Rock. The Talking Rock Parties shall convey to ICRWUA such easement or other legal right of access as is reasonably required by ICRWUA to operate, test, inspect, repair and maintain the Additional Well(s) and the Additional Transmission Facilities.

c. Commodity Charge. Water delivered to any of the Talking Rock Parties from any Additional Well(s) through the Talking Rock water system shall be subject to the Commodity Charge under Section 6(b) of this Agreement. In the event that Additional Well(s) are used by the Talking Rock Parties but not connected to the Talking Rock system, then the Commodity Charge will not be applicable and ICRWUA will have no right to operate such Additional Well(s).

d. Use Limitations in Talking Rock; No Curtailment. ICRWUA and the Talking Rock Parties shall ensure that the annual production from any Additional Well(s) and delivered to the Talking Rock Parties is used only for Landscape Irrigation, Lake Fill, Construction Purposes and/or other non-potable purposes in Talking Rock. No Additional Well(s) shall be subject to Residential Priority and Curtailment as set forth in Section 5, nor shall such Additional Wells(s) be considered in determining whether a Water Shortage exists. This Section 8(d) is expressly subject to Sections 8(e) and 8(f) below.

e. Severance. Upon six (6) months written notice, the Talking Rock Parties may sever Additional Well(s) and/or Additional Transmission Facilities from ICRWUA's Talking Rock water system without any further obligation to provide supply from such wells to ICRWUA for any purpose, except as provided in Section 8(f) below. Severance shall be accomplished at the Talking Rock Parties sole cost and expense in coordination with ICRWUA, and in a manner that does not unreasonably interfere with ICRWUA's operations and which leaves ICRWUA's Talking Rock water system in the same or better condition. In the event that the Talking Rock Parties elect to sever any Additional Well(s) and/or Additional Transmission Facilities from the Talking Rock water system under this Section 8(e), then ICRWUA's obligation to supply water to the Talking Rock Parties for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes under Section 4 shall thereafter be limited to supplying such water only if

and to the extent that ICRWUA has water available from the Talking Rock Wells after satisfying the Talking Rock Potable Water Demand as defined in Section 8(f) below.

f. Limitation on Right to Sever Additional Well(s) and/or Additional Transmission Facilities Required by ICRWUA to Supply Residential Water Demand in Talking Rock. Notwithstanding anything in this Section to the contrary, the Talking Rock Parties shall not be permitted to sever any Additional Well(s) and/or Additional Transmission Facilities if and so long as such Additional Well(s) and/or Additional Transmission Facilities are required by ICRWUA to supply the potable water demand, or any portion thereof, from customers within Talking Rock (the "Talking Rock Potable Water Demand"). For purposes of this Section, the Talking Rock Potable Water Demand shall be (i) the actual peak-day potable water demand for customers of ICRWUA on the Talking Rock water system in the year the Talking Rock Parties seek to sever the Additional Well(s) and/or Additional Transmission Facilities if the peak-day has occurred; or (ii) the estimated peak-day potable water demand for customers of ICRWUA on the Talking Rock water system in the year the Talking Rock Parties seek to sever the Additional Well(s) and/or Additional Transmission Facilities if the peak-day has not yet occurred. Further, if such Additional Well(s) and/or Additional Transmission Facilities are required in order for ICRWUA to supply the Talking Rock Potable Water Demand, then the limitations and exclusions set forth in Section 8(d) above shall not apply.

9. Prior Agreements. The Parties agree that the MXA, as amended, and Well Agreement, as amended, are valid and remain in full force and effect until the Effective Date of this Agreement as defined in Section 11(c) below. The Parties further agree that, as of the Effective Date, this Agreement shall become the principle agreement governing the Parties' relationship as water utility, developer, and Golf Course owner, and that each and every existing agreement between the Parties, as identified in the Recitals, is hereby superseded, replaced and terminated by this Agreement, except as follows:

a. Utility Facilities; Transfers; Refunds. Within thirty (30) days of the Effective Date of this Agreement, the Talking Rock Parties shall convey to ICRWUA and ICRWUA shall accept from the Talking Rock Parties all utility infrastructure constructed to serve Talking Rock which has not been transferred as of the Effective Date, subject only to the applicable warranties of the Talking Rock Parties with respect to such infrastructure including, without limitation, the warranties set forth in Section 2(c) of this Agreement, and any outstanding punch list items applicable to such infrastructure. The Parties agree that their rights and obligations under Sections 1-7 and 14-15 of the MXA, as amended by the First Amendment to MXA, with respect to the financing, construction and transfer of on-site and off-site facilities necessary for ICRWUA to extend water utility service to Talking Rock in accordance with its CC&N remain in full force and effect in conjunction with this Agreement, except as modified by this Section 9(a). The Parties further agree that ICRWUA's obligation to make refunds under Sections 8 and 9 of the MXA, as amended by Section 1(d) of the First Amendment to MXA, remains in full force and effect; provided, however, that ICRWUA may elect in its sole discretion to characterize utility infrastructure provided by the Talking Rock Parties as either advances in aid of construction or contributions in aid of construction, provided that no less than thirty percent (30%) of plant advanced or contributed is characterized as advances in aid of construction. The Parties further agree that amounts paid by the Talking Rock Parties under

Section 6 of this Agreement shall not be used in the determination of revenues for the purpose of determining the amount of any refunds for advances in aid of construction.

b. Incorporation of Surviving Provisions of MXA, as Amended by the First Amendment to MXA. The Parties agree that the portions of the MXA, as amended, that are intended to survive this Agreement, which sections are identified in this Section 9, are attached hereto as Attachment 3, and incorporated herein as part of this Agreement.

10. Conservation. The Talking Rock Parties agree to continue to use reasonable efforts to promote conservation within Talking Rock and to minimize the use of groundwater for Landscape Irrigation, Lake Fill and other non-potable purposes. TRGC further agrees to complete construction of an additional planned storage pond with an estimated capacity of 25,000,000 gallons no later than February 1, 2009, which deadline may be extended by the Talking Rock Parties for good cause and following notice to ICRWUA.

11. ACC Approval; Effect of Issuance of ACC Approval; Effective Date; Term.

a. Cooperation of the Parties. The Parties agree to cooperate fully and in good-faith to take all steps necessary and reasonable to seek ACC approval of this Agreement without material change, or if the ACC determines that it does not have authority to approve this Agreement, to seek ACC approval of the rates and charges contained in this Agreement without material change, including, without limitation, the term. Such approval shall be sought in ACC Docket No. W-02824A-07-0388. For purposes of this Agreement, a "material change" shall, in light of the surrounding circumstances, be a modification, alteration or amendment to the Agreement and/or any of its individual terms and conditions, including its provisions for rates and charges and term, such that a reasonable person would view such modification, alteration or amendment as having influenced the decision whether to have entered into this Agreement.

b. Effect of Issuance of ACC Approval.

i. ACC Approval Without Material Change. If the ACC approves this Agreement without material change, or alternatively, if the ACC determines that it does not have authority to approve this Agreement but approves the rates and charges contained in this Agreement for the term set forth in the Agreement, without material change, then each of the Parties shall submit a Statement of Acceptance within ten (10) business days of such order becoming final and non-appealable.

ii. ACC Approval With Material Change. If the ACC issues an order approving this Agreement but with material changes, or alternatively, if the ACC determines that it does not have authority to approve this Agreement but approves the rates and charges and/or term contained in this Agreement with material change, then each of the Parties shall submit either a Statement of Acceptance or a Statement of Non-Acceptance within ten (10) business days of such order becoming final and non-appealable. If any of the Parties submits a Statement of Non-Acceptance, such statement shall specify the reason for non-acceptance of the ACC order approving the Agreement and, thereafter, the Parties shall meet within ten (10) business days to discuss whether the reason for non-acceptance can be cured. If the Statement of Non-Acceptance is not withdrawn as a result of such meeting and a Statement of Acceptance issued,

the Parties hereby agree that this Agreement not become effective, shall have no force and effect, and that the Parties' existing agreements shall remain in full force and effect.

iii. ACC Denial of Approval. If the ACC issues an order denying approval of this Agreement, or alternatively, if the ACC determines that it does not have authority to approve this Agreement but denies the rates and charges and/or term contained in this Agreement, then the Parties hereby agree that this Agreement shall not become effective, shall have no force and effect, and that the Parties' existing agreements shall remain in full force and effect.

c. Effective Date. This Agreement has been executed as the date first included above. However, the Parties agree that this Agreement shall not be effective until the effective date ("Effective Date"), which shall be defined for purposes of this Agreement as the date upon which all Parties have submitted a Statement of Acceptance indicating that the final and non-appealable ACC decision approving the Agreement is acceptable.

d. Term. The initial term ("Initial Term") of this Agreement shall be thirty-five (35) years commencing upon the Effective Date as defined in Section 11(c) above. Thereafter, the Parties may agree to extend this Agreement and seek additional ACC approval, if necessary, to extend the Initial Term. If the Parties do not mutually agree to extend the Initial Term, then this Agreement shall expire at the end of the Initial Term and ICRWUA shall thereafter bill the Talking Rock Parties for all water delivered at the then currently applicable tariffed rates and charges approved by the ACC for Landscape Irrigation, Lake Fill and other like non-potable purposes.

12. Non-Discrimination Provision. ICRWUA agrees to treat the Talking Rock Parties and all customers in Talking Rock in a non-discriminatory manner.

13. Authority, Representations and Warranties.

a. ICRWUA represents and warrants that:

i. It is a non-profit association and public service corporation, duly organized and existing under the laws of the State of Arizona, and has, and as of the Effective Date will have, full legal right, power and authority to: (i) enter into this Agreement; and (ii) carry out and consummate the transactions contemplated by this Agreement.

ii. The Board of Directors of ICRWUA: (i) has duly authorized and approved the execution and delivery of, and the performance of its obligations under this Agreement; and (ii) has duly authorized and approved the consummation of all other transactions contemplated by this Agreement.

iii. The consummation of the transactions contemplated in this Agreement will not conflict with or constitute a breach of or default under any provision of applicable law or administrative regulation of the State of Arizona or the United States of America or any department, division, agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, bond, note, resolution, ordinance, indenture, agreement or other instrument to which ICRWUA is a party or may be otherwise subject, to the

extent that such conflict, breach or default adversely affects or impacts the terms or performance of this Agreement or any of the transactions contemplated by this Agreement.

iv. There is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or, to the knowledge of ICRWUA, threatened: (i) in any way affecting ICRWUA's powers or the existence of ICRWUA; (ii) in any way contesting or affecting the validity or enforceability of this Agreement or any agreements entered into in connection therewith; or (iii) that may adversely affect ICRWUA or the purposes of this Agreement.

b. The Talking Rock Parties represent and warrant that:

i. Each are duly organized and existing under the laws of the State of Arizona, and have, and as of the Effective Date will have, full legal right, power and authority to: (i) enter into this Agreement; and (ii) carry out and consummate the transactions contemplated by this Agreement.

ii. Each is: (i) duly authorized and approved the execution and delivery of, and the performance of its obligations under this Agreement; and (ii) duly authorized and approved the consummation of all other transactions contemplated by this Agreement.

iii. The consummation of the transactions contemplated in this Agreement will not conflict with or constitute a breach of or default under any provision of applicable law or administrative regulation of the State of Arizona or the United States of America or any department, division, agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, bond, note, resolution, ordinance, indenture, agreement or other instrument to which one or more of the Talking Rock Parties is a party or may be otherwise subject, to the extent that such conflict, breach or default adversely affects or impacts the terms or performance of this Agreement or any of the transactions contemplated by this Agreement.

iv. There is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or, to the knowledge of the Talking Rock Parties, threatened: (i) in any way affecting the Talking Rock Parties' powers or existence; (ii) in any way contesting or affecting the validity or enforceability of this Agreement or any agreements entered into in connection therewith; or (iii) that may adversely affect one or more of the Talking Rock Parties or the purposes of this Agreement.

c. Accuracy of Representations and Warranties. The Parties acknowledge that each and every representation, warranty, term and condition in this Agreement shall be true and accurate as of the date of execution of this Agreement, and as of the Effective Date as defined in Section 11(c) above, and shall constitute a material part of the consideration hereunder, and shall survive the execution of this Agreement.

14. Miscellaneous Provisions.

a. No Right to Challenge Withdrawal of Groundwater. The Talking Rock Parties hereby waive on behalf of themselves and their respective successors and assigns any right to challenge ICRWUA's withdrawal of water from the Talking Rock Wells, or from any Additional Well(s) as long as such Additional Well(s) is under the control of ICRWUA in

accordance with Section 8 of this Agreement, and so long as ICRWUA is not in breach of this Agreement. It is the Parties' mutual understanding and good faith belief that ICRWUA has the legal right and authority to withdraw groundwater from the Talking Rock Wells and any Additional Well(s), and once groundwater is withdrawn from such wells, ICRWUA is the owner of such groundwater.

b. Estoppel Certificate. After the Effective Date as defined in Section 11(c) above, a Party shall at any time and from time to time upon not less than ten (10) days' prior written notice from the other Party execute, acknowledge and deliver to the requesting Party a statement in writing: (i) certifying that this Agreement is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Agreement, as so modified, is in full force and effect), and the date to which amounts due hereunder are paid in advance, if any; (ii) acknowledging that there are not, to the knowledge of the certifying Party, any uncured defaults on the part of the other Party hereunder, or specifying such defaults, if there are any claimed; and (iii) confirming such other matters as the requesting Party may reasonably request. Any such statement may be relied upon by the requesting Party, and any prospective purchaser or encumbrancer of the requesting Party's property. Upon a failure to sign the statement or notify the requesting Party in writing of any inaccuracies in the statement within the time period stated above, the statement submitted by a requesting Party shall be deemed approved.

c. Force Majeure. No Party to this Agreement shall be liable to any other Party for failure, default or delay in performing any of its obligations hereunder, other than for the payment of money obligations specified herein, in case such failure, default or delay is caused by strikes or other labor problems; forces of nature, unavoidable accident, fire, acts of the public enemy, delays in receipt of materials; or any other cause, whether of similar nature, not within the control of the Party affected and which, by the exercise of due diligence, such Party is unable to prevent or mitigate the outcome ("Force Majeure Matters"); provided, however, that the Party's failure, default or delay in performance shall be excused only for so long as such cause or event is present. Should any Force Majeure Matter occur, the Parties hereto agree to proceed with diligence to do whatever is reasonable and necessary with respect to the Force Majeure Matter so that each Party may perform its obligations under this Agreement.

d. Indemnity. After the Effective Date, ICRWUA shall indemnify, save and hold harmless the Talking Rock Parties and their members, officers, directors, partners, principals, employees and agents for, from and against any and all loss or damage arising from or relating to the storage, treatment, delivery or service of water withdrawn from the Talking Rock Wells or any Additional Well(s) by ICRWUA for the purpose of serving ICRWUA's customers in Talking Rock, including any liability resulting from the quality of the water of the Talking Rock Wells or any Additional Well(s), or any violation of laws, rules or regulations relating to human health or the safety or protection of the environment.

e. Assignment.

i. Right of Assignment as Part of Sale. Any of the Talking Rock Parties may assign this Agreement, or any rights and obligations hereunder, to another entity as part of a sale of the Golf Course, or of the Talking Rock development, in whole or in part, or as

part of the sale or merger of any of the entities making up the Talking Rock Parties, but only after notice to ICRWUA of the assignment. The notice required in this Section of the Agreement shall include (i) the assigning Party's written agreement to assign this Agreement, in whole or in part; and (ii) the assignee party's written agreement to be bound by the terms and conditions of this Agreement, including all financial obligations. An assignment under this Section of the Agreement shall be effective ten (10) business days after receipt by ICRWUA.

ii. Right of Assignment by Harvard Simon. The Parties hereby agree that all prospective rights and obligations imposed on Harvard Simon by virtue of this Agreement are hereby assigned by Harvard Simon to TRL and/or TRGC consistent with the material rights and obligations imposed on the Parties under this Agreement, and ICRWUA hereby agrees that, as of the Effective Date, Harvard Simon is released from any and all prospective obligations hereunder.

iii. Right/Duty of Assignment by ICRWUA as Part of Condemnation, Sale of Assets or Other Reorganization Impacting its Non-Profit or Other Corporate Status. ICRWUA shall ensure that all of its obligations under this Agreement are assigned to and accepted by any person or entity, including a restructured association or corporation, acquiring the Talking Rock water system by condemnation, purchase, merger, assignment or other lawful means of acquisition. The notice required in this Section of the Agreement shall include (i) ICRWUA's written agreement to assign this Agreement, in whole or in part; and (ii) the assignee party's written agreement to be bound by the terms and conditions of this Agreement, including all obligations for delivery of water to the Talking Rock Parties for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes. An assignment under this Section of the Agreement shall be effective ten (10) business days after receipt of notice by the Talking Rock Parties.

iv. Other Assignments. Any other assignments shall require the other Party's or Parties' prior written consent to the assignment, such consent not to be unreasonably withheld.

v. Outstanding Amounts Due. On or before the date of assignment under this Agreement, the Talking Rock Parties agree to pay all unpaid charges due under this Agreement.

vi. Responsibility of Talking Rock Parties for System Reservation Charge. In the event of any assignment by the Talking Rock Parties of this Agreement, the Talking Rock Parties shall remain obligated and liable to ICRWUA for payment of all unpaid System Reservation Charges under Section 6(a) of the Agreement. In the event that any assignee of this Agreement fails to pay any System Reservation Charge when due, then ICRWUA shall notify the Talking Rock Parties of such failure in writing (by notice to the Point of Contact), and the Talking Rock Parties shall make such payment to ICRWUA on behalf of the assignee within fifteen (15) days following the date of the receipt of the written notice from ICRWUA.

f. Manner of Giving Notice. Any notice required or permitted to be given hereunder shall be in writing and directed to the address set forth below for the Party to whom the notice is given and shall be deemed delivered: (i) by personal delivery, on the date of delivery;

(ii) by first class United States mail, three (3) business days after being mailed; or (iii) by Federal Express Corporation (or other reputable overnight delivery service), one (1) business day after being deposited into the custody of such service. The address of ICRWUA for all notices under this Agreement shall be:

ICR Water Users Association, Inc.
Attn: Robert M. Busch
P.O. Box 5669
Chino Valley, Arizona 86323

With a copy also provided to:

Jeffrey W. Crockett, Esq.
SNELL & WILMER
One Arizona Center
400 East Van Buren
Phoenix, Arizona 85004-2202

The address of the Talking Rock Parties for all notices under this Agreement shall be:

Harvard Investments
Attn: Craig Krumwiede
17700 North Pacesetter Way
Scottsdale, AZ 85255

With a copy also provided to:

Jay L. Shapiro, Esq.
Fennemore Craig
3003 N. Central Ste. 2600
Phoenix, Arizona 85012-2913

Any Party may designate another person or address for notices under this Agreement by giving the other Party notice at least thirty (30) days prior to the effective date of the new designation.

g. Attorneys Fees and Costs. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing Party or Parties shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such Party or Parties may be entitled.

h. Binding Effect. This Agreement is binding upon and inures to the benefit of the Parties and their respective successors and assigns.

i. Default. If any Party breaches or defaults under this Agreement, and such breach or default continues for a period of two (2) days with respect to any breach or default by ICRWUA under Section 3, or for a period of ten (10) days with respect to any breach or default

in the payment of money, or for a period of thirty (30) days with respect to any other breach or default, in each case after receipt by the defaulting Party of a written notice describing the default, the non-defaulting Party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance.

j. Time of the Essence. Time is of the essence of every provision hereof.

k. Governing Law. This Agreement shall be governed by the laws of the State of Arizona.

l. No Waiver. No change in, addition to, or waiver of any provisions of this Agreement shall be binding upon any Party unless in writing and signed by all Parties.

m. Counterparts. This Agreement may be executed in two or more original or facsimile counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

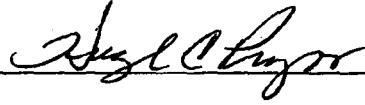
n. Enforceability; Invalidity of Provision or Provisions. In case any provision of this Agreement shall be determined to be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as most nearly to retain the intent of the Parties. If such modification is not possible, such provision shall be severed from this Agreement. In either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

o. Joint Drafting and Negotiation. The Parties have participated jointly in the negotiation and drafting of this Agreement, and each have been represented by legal counsel. If a question of interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

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IN WITNESS WHEREOF, the Parties hereto have caused this Water Service Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, INC.

By 
Its: President HUGH C. PRYOR

HARVARD SIMON I, L.L.C.

By _____
Its: Manager

TALKING ROCK LAND, LLC

By: _____
Its: Manager

TALKING ROCK GOLF CLUB, LLC

By: _____
Its: Manager

IN WITNESS WHEREOF, the Parties hereto have caused this Water Service Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, INC.

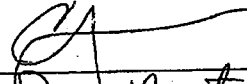
By _____

Its: President _____

HARVARD SIMON I, L.L.C.,

By: Harvard Talking Rock, L.L.C.,
Its Operating Member,

By: Harvard Investments, Inc.,
Its Manager

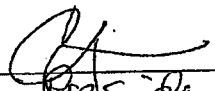
By:  _____
Its: President _____

TALKING ROCK LAND, LLC,

By: Harvard Simon I, L.L.C.,
Its Manager,

By: Harvard Talking Rock, L.L.C.,
Its Operating Member,

By: Harvard Investments, Inc.,
Its Manager

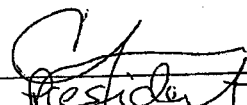
By:  _____
Its: President _____

TALKING ROCK GOLF CLUB, L.L.C.,

By: Harvard Simon I, L.L.C.,
Its Manager,

By: Harvard Talking Rock, L.L.C.,
Its Operating Member,

By: Harvard Investments, Inc.,
Its Manager

By:  _____
Its: President _____

ATTACHMENT 1

PROCEDURE FOR MEASURING AIR PRODUCTION

Measurement of Allowable Air Production in Talking Rock Well 1 and Well 2

The measurement of the amount of air produced by Talking Rock Well 1 and Well 2 is based on a method developed by Southwest Ground Water for the test conducted in October 2007. The test was designed to establish the approximate volume of air in a given volume of water measured at atmospheric pressure. This percentage is obtained by:

1. Collecting a sample of water from the well in question in a small balloon. The volume collected in the balloon needs to be standardized for repeatability (try for 400 ml +/- 50 ml).
2. This sample is then inserted into a graduated beaker, the beaker is filled with water to a given volume (1,000 ml) and the balloon is removed. The water level in the beaker is measured and subtracted from the given volume thus obtaining the total volume of the balloon.
3. The balloon is then inserted into an Imhoff Cone completely filled with water, inverted and standing in a tank of water nine (9) inches deep.
4. The balloon is ruptured inside the Imhoff Cone and the volume of air released into the Cone is recorded.
5. This air volume is divided by the volume of the balloon obtained in step two above and multiplied by 100 to obtain the percentage of air per unit volume of water produced by the well.

Although only providing an approximate value for the volume of air in a given volume of water measured at atmospheric pressure, the technique does provide results that are consistently comparable and relate directly to the values obtained during the October 2007 well field test. The latter values have been used to set the allowable standard for the approximate volume of air in a given volume of water measured at atmospheric pressure.

ATTACHMENT 2

WELL FIELD PROPERTY LEGAL DESCRIPTION

LEGAL DESCRIPTION

That certain portion of Lot 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, Page 66, Yavapai County Records, Arizona located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Meridian, Yavapai County, Arizona, more particularly described as follows:

COMMENCING at the Southwest Corner of said lot;

Thence North $02^{\circ} 27' 51''$ East along the westerly line of said lot a distance of 303.11 feet to the POINT OF BEGINNING;

Thence continuing North $02^{\circ} 27' 51''$ East a distance of 269.75 feet;

Thence South $79^{\circ} 51' 35''$ East leaving said westerly line a distance of 389.85 feet;

Thence South $04^{\circ} 03' 10''$ West a distance of 619.62 feet to a point on the Northerly Right-of-Way line of the Williamson Valley Road as recorded in Book 11, Page 47, Yavapai County Records;

Thence North $62^{\circ} 07' 46''$ West along said Right-of-Way a distance of 12.98 feet to terminus of said Right-of-Way, the beginning of a 25' easement for public utilities, public roadway, and drainage purposes, and the beginning of a nontangent curve concave to the southwest and having a radius of 1471.23 feet, the radius point of which bears South $28^{\circ} 09' 35''$ West;

Thence northwesterly along said curve thru a central angle of $09^{\circ} 31' 15''$ an arc length of 244.47 feet to a point on an existing well easement as recorded in the said "Amended Record of Survey for Valley View Estates";

Thence North $20^{\circ} 15' 50''$ West along said well easement a distance of 334.90 feet to the POINT OF BEGINNING.

Containing 4.59 acres more or less.

That certain portion of Parcel 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, page 66, Yavapai County Records, Arizona, located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Commencing at the Southwestern most corner of said parcel;

Thence North 02 degrees 27 minutes 51 seconds East along the Westerly line of said Parcel a distance of 25.48 feet to the POINT OF BEGINNING;

Thence continuing North 02 degrees 27 minutes 51 seconds East, a distance of 303.10 feet;

Thence South 20 degrees 15 minutes 50 seconds East leaving said Westerly line a distance of 334.90 feet to a point on the curved Northerly right of way line of a 25 feet wide easement for ingress, egress, utility, roadway and drainage, said curved right of way line being concave to the Southwest and having a radius of 1471.23 feet, the radius point of which bears South 73 degrees 55 minutes 50 West;

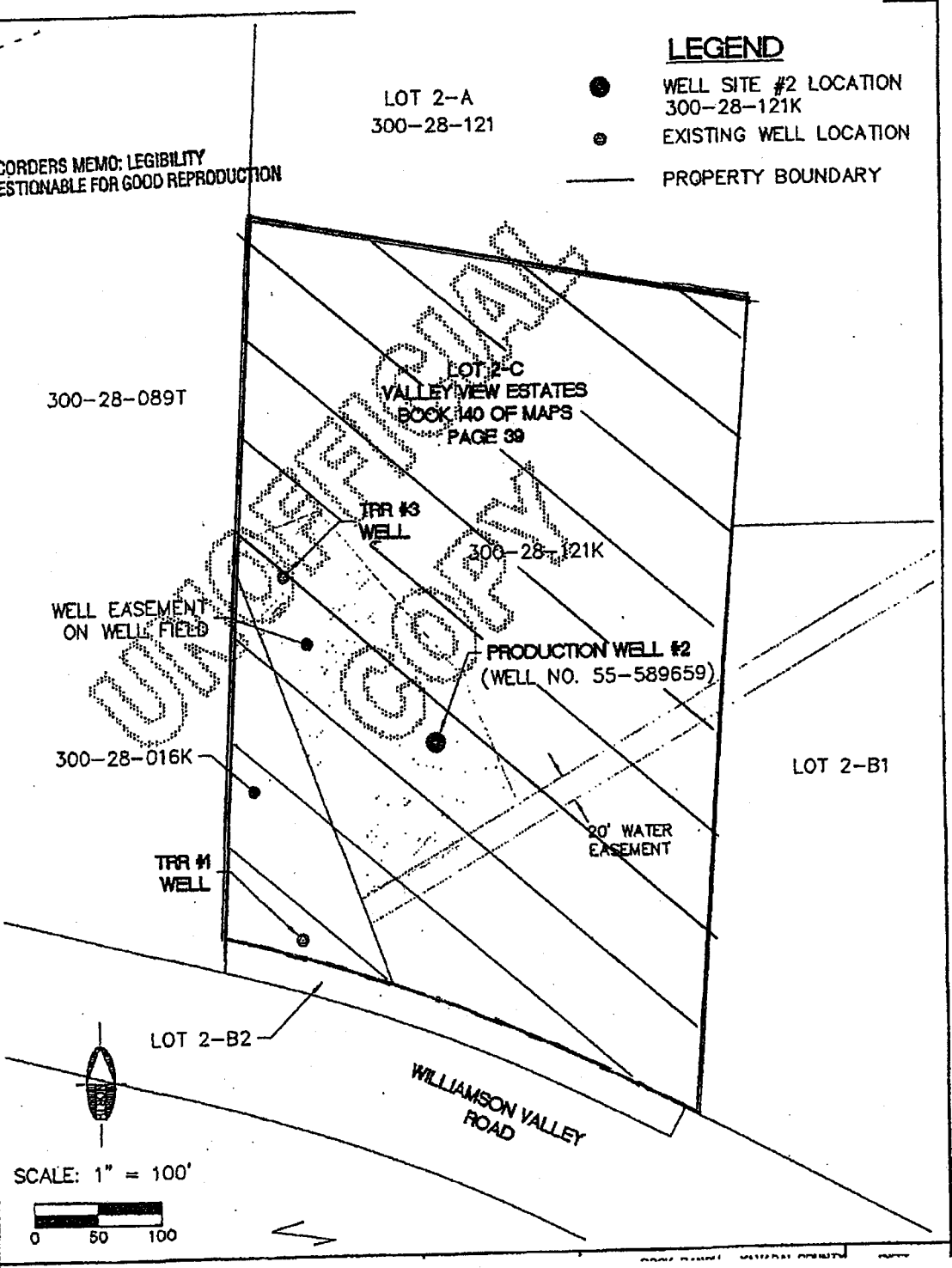
Thence Northwesterly along said last mentioned curve thru central angle of 05 degrees 08 minutes 20 seconds an arc length of 131.95 feet;

Thence continuing along the Northerly right of way line of said 25 foot wide easement South 76 degrees 30 minutes 00 second East, a distance of 1.21 feet to the POINT OF BEGINNING.

Containing approximately 0.45 acres more or less.

king Rock Ranch\DWG\04046 DWG\WELL SITE #2 LOCATION 5-7-08\04046-004 Well site 2 exhibit with EASEMENT 5-28-08.dwg, 2008-10-24am

RECORDERS MEMO: LEGIBILITY
QUESTIONABLE FOR GOOD REPRODUCTION



LEGAL DESCRIPTION

A parcel of land lying within Parcel 2, Amended Record of Survey of Valley View Estates as recorded in Book 49 of Land Surveys, Page 66 in the Yavapai County Recorder's Office (R1), lying in Section 17, Township 16 North, Range 3 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona;

BEGINNING at the Southeast corner of Section 17, from which the East Quarter corner of Section 17 bears North 04°56'24" East, a distance of 2644.68 feet (Record per a Results of Survey as recorded in Book 53 of Land Surveys, Page 24 in the Yavapai County Recorders Office (R2) and Basis of Bearings for this description);

Thence North 46°18'18" West, a distance of 5869.55 feet (R2) to the Southwest corner of said Parcel 2 and the Southwest corner of a Well Easement as recorded in Book 3697 of Official Records, Page 369, Yavapai County Recorder's Office (R3), said point being on the Northerly Right of Way line of Williamson Valley Road;

Thence North 02°31'38" East, along the Westerly line of said Parcel 2, a distance of 25.48 feet (North 02°27'51" East, a distance of 25.48 feet R3);

Thence South 76°26'12" East, along the Northerly line of a 25.00 feet wide Easement for Public Utilities, Public Roadway and Drainage Purposes per R1, a distance of 1.21 feet (South 76°30'00" East, a distance of 1.21 feet R3), to a point of curvature, the central point of which bears South 13°33'48" West;

Thence along a curve concave Southwest, having a radius of 1471.23 feet, through a central angle of 05°08'20", a distance of 131.95 feet (R3);

Thence leaving said Northerly Easement line, North 20°12'03" West, (North 20°15'50" West R3), along the Easterly line of R3, a distance of 69.75 feet to the TRUE POINT OF BEGINNING;

Thence continuing along the Easterly line of R3, North 20°12'03" West (North 20°15'50" West R3), a distance of 265.15 feet to a point on the West line of said Parcel 2 (per R1);

Thence leaving the Easterly line of R3, North 02°31'38" East (North 02°27'51" East R1), along the West line of Parcel 2, a distance of 24.22 feet;

Thence leaving the West line of Parcel 2, North 69°47'57" East, a distance of 65.64 feet;

Thence South 40°37'38" East, a distance of 170.16 feet;

Thence South 22°57'00" East, a distance of 104.63 feet;

Thence South 60°13'27" West, a distance of 141.37 feet to the TRUE POINT OF BEGINNING.

Containing 0.75 Acres, more or less.

That certain portion of Parcel 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, page 66, Yavapai County Records, Arizona, located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Commencing at the Southwestern most corner of said parcel;

Thence North 02 degrees 27 minutes 51 seconds East along the Westerly line of said Parcel a distance of 25.48 feet to the POINT OF BEGINNING;

Thence continuing North 02 degrees 27 minutes 51 seconds East, a distance of 303.10 feet;

Thence South 20 degrees 15 minutes 50 seconds East leaving said Westerly line a distance of 334.90 feet to a point on the curved Northerly right of way line of a 25 foot wide easement for ingress, egress, utility, roadway and drainage, said curved right of way line being concave to the Southwest and having a radius of 1471.23 feet, the radius point of which bears South 73 degrees 55 minutes 50 West;

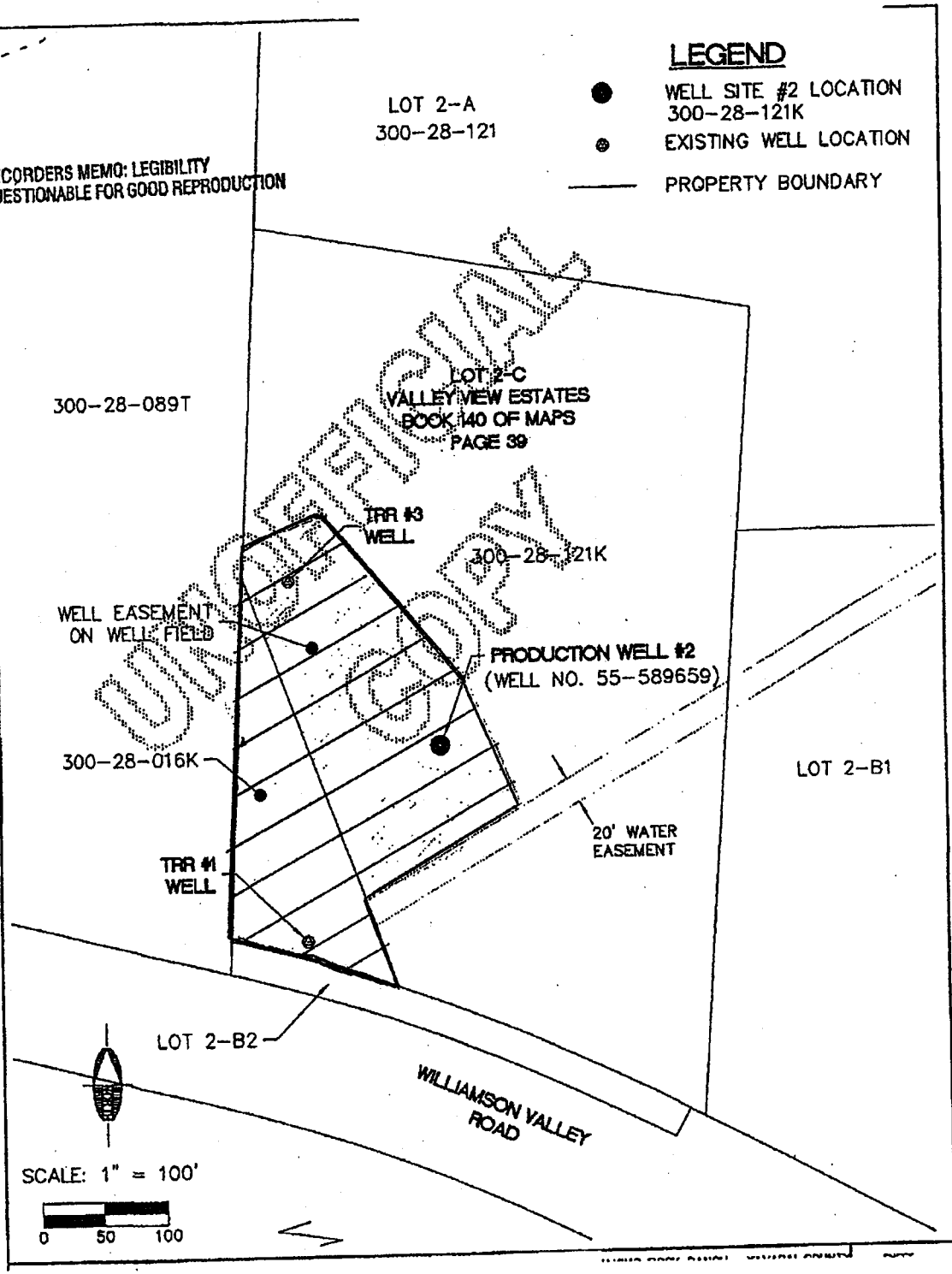
Thence Northwesterly along said last mentioned curve thru central angle of 05 degrees 08 minutes 20 seconds an arc length of 131.95 feet;

Thence continuing along the Northerly right of way line of said 25 foot wide easement South 76 degrees 30 minutes 00 second East, a distance of 1.21 feet to the POINT OF BEGINNING.

Containing approximately 0.45 acres more or less.

king Rock Ranch\DWG\04046 DWG\WELL SITE #2 LOCATION 5-7-08\04046-004 Well site 2 exhibit with EASEMENT 5-8-08.dwg, 2008-10-10:44am

RECORDERS MEMO: LEGIBILITY
QUESTIONABLE FOR GOOD REPRODUCTION



ATTACHMENT 3

MXA PROVISIONS

ATTACHMENT 3 MXA PROVISIONS

Sections 1 – 9 and 14 – 15 of MXA

1. Construction of Water Utility Facilities by Developer.

(a) Construction of Facilities. At its sole expense, Developer shall construct and install, or shall cause to be constructed and installed water utility facilities consisting of water distribution mains and pipelines, valves, hydrants, fittings, service lines and all other related items of utility plant, both on-site and off-site, to be used to extend water service to each lot, building or other customer within the Property (the "Facilities") as more particularly described in Exhibit "C" attached hereto and incorporated herein by this reference. Exhibit "C" also contains an estimated cost of construction for the Facilities. Utility hereby acknowledges and agrees that the Property may be developed in separate phases and that Developer may construct and install the Facilities in phases in a manner that will allow for the provision of water utility services to each phase as necessary and in a timely manner. The size, design, type and quality of materials used to construct the Facilities, as well as the location of the Facilities upon and under the ground, shall be approved by Utility, which approval shall be promptly provided and which shall not be unreasonably withheld.

(b) Utility's Use of the Facilities. Utility covenants and agrees that it shall use its best efforts to ensure that the Facilities are not used to serve customers outside the Property in a manner that adversely impacts the provision of water utility service to the Property. Utility further represents to Developer that, in Utility's judgment, the cost of constructing the Facilities is disproportionate to anticipated revenues to be derived from future customers within the Property.

2. Engineering Plans. Developer has retained Shephard-Wesnitzer, Inc. to prepare engineering plans and specifications for the Facilities to be constructed hereunder. Developer may retain additional engineers or other consultants as determined in Developer's sole discretion to be necessary in connection with the design and installation of the Facilities. All plans and specifications shall be submitted to Utility and its engineers for review and approval, together with a copy of the subdivision plat for the Property and drawings depicting the infrastructure improvements for the subdivision.

3. Design and Construction Standards; Regulatory Approvals. All Facilities designed and constructed by Developer hereunder shall be in strict conformance with the plans and specifications therefor, and the applicable regulations of the Yavapai County Environmental Services Department ("Environmental Services"), Arizona Department of Environmental Quality ("ADEQ"), the Commission and/or any other governmental agency exercising jurisdiction over the design and construction of potable water systems. Prior to construction of any Facilities, Developer shall obtain approval to construct from either Environmental Services or ADEQ. Upon completion of the Facilities, Developer shall obtain approval of construction from either Environmental Services or ADEQ. Developer shall also be responsible for obtaining any additional permits, licenses and/or approvals required for the construction of the Facilities. Utility shall cooperate with and assist Developer promptly, as may be reasonably required, in obtaining such certificates and approvals. All contractors and subcontractors employed by Developer in connection with the construction of the Facilities shall be licensed by the Arizona Registrar of Contractors and shall be qualified in the construction of public water systems.

4. Right of Inspection; Corrective Action. Utility shall have the right to have its engineers, the selection of which shall be subject to Developer's approval, inspect and test the Facilities at reasonable times during the course of construction as necessary to ensure conformance with plans and specifications. If at any time before the final acceptance by Utility of the Facilities any construction, materials or workmanship are found to be defective or deficient in any way, or the Facilities fail to conform to this Agreement, then Utility may reject such defective or deficient construction, materials and/or workmanship and require Developer to fully pay for all necessary corrective construction efforts ("Corrective Action").

Utility reserves the right to withhold approval and to forbid connection of any defective portion of the Facilities to Utility's system unless and until the Facilities have been constructed in accordance with plans and specifications and all applicable regulatory requirements. Further, Developer shall promptly undertake any Corrective Action required to remedy such defects and deficiencies in construction, materials and workmanship upon receipt of notice by Utility. The foregoing notwithstanding, Utility shall not unreasonably withhold or delay acceptance of the Facilities.

5. Transfer of Ownership; As-Built Plans; Warranty.

(a) Transfer of Ownership. Upon proper completion, testing and final inspection of the Facilities by Utility, Utility shall issue a written notice of acceptance to Developer. Immediately thereafter, Developer shall convey to Utility, via a bill of sale in a form satisfactory to Utility, the Facilities together with any permanent easements and/or rights-of-way required pursuant to paragraph 7 below. All Facilities so transferred shall thereafter become and remain the sole property and responsibility of Utility. Developer covenants and agrees that, at the time of transfer, the Facilities shall be free and clear of all liens and encumbrances, and Developer shall provide evidence in the form of lien waivers or other appropriate documents that all claims of contractors, subcontractors, mechanics and materialmen have been paid and are fully satisfied.

(b) As-Built Plans. At the time of transfer, Developer shall provide to Utility three (3) sets of "as-built" drawings and specifications for the Facilities, certified and sealed by Developer's engineers to be true and correct.

(c) Warranty. Developer warrants that, upon their completion, the Facilities will be free from all defects and deficiencies in construction, materials and workmanship for a period of time commensurate with the warranty period provided to Developer by contractors retained by Developer to construct the Facilities, but in no event, for a period of less than one (1) year from the date of Utility's acceptance. During the warranty period, Developer agrees to promptly undertake any Corrective Action required to remedy such defects and deficiencies upon notice by Utility. Upon Utility's acceptance of the Facilities, as provided in this paragraph, Utility shall be deemed to have accepted the Facilities in "as is" and "as-constructed" condition, subject only to the warranty period concerning defects and deficiencies in construction, materials and workmanship provided for herein.

6. Reimbursement for Inspection Costs, Overhead and Other Expenses of Utility. Developer shall reimburse Utility for Utility's reasonable fees, costs and expenses incurred in connection with its review of the engineering plans and specifications for the Facilities, the preparation of this Agreement and other necessary legal services, inspection and testing of the Facilities during their construction, and other fees, costs and expenses reasonably and necessarily incurred by Utility with respect to this project during the course of construction and in connection with obtaining approval of the Commission to extend Utility's CC&N to include the Extension Area (collectively, "Administrative Costs"). Utility covenants to use reasonable efforts to incur Administrative Costs only as necessary and prudent. On a monthly basis, Utility shall provide Developer with a written statement describing with specificity all Administrative Costs incurred by Utility during the preceding month, together with complete copies of all bills, statements and invoices supporting such Administrative Costs. Developer shall make payment on or before the fifteenth (15th) day of the calendar month following the month in which Utility's statement is received. Utility hereby acknowledges its receipt of \$5,000.00 as a deposit, which deposit shall be applied as a credit against Administrative Costs incurred by Utility hereunder.

7. Public Streets and Rights-of-Way; Easements; Spacing of Lines. At the time of transfer of ownership of any Facilities, as provided in paragraph 5 above, Developer shall provide Utility with evidence satisfactory to Utility that all distribution mains and service lines within the Property are located within dedicated streets and/or public rights-of-way. In the event that any distribution mains or service lines are not located within dedicated streets and/or public rights-of-way, then at the time of transfer of ownership of such Facilities, Developer shall grant to Utility, or shall cause to be granted to Utility, easements and/or rights-of-way, free from all liens and security interests thereon, and in a form that is

satisfactory to Utility, over, under, and across all pipeline routes and all portions of the Property necessary to operate, maintain and repair such Facilities. Unless otherwise mutually agreed upon in writing, such easements and/or rights-of-way within the Property shall be free of physical encroachments, encumbrances or obstacles, and shall have a minimum width of ten (10) feet. The distribution mains and service lines constructed and installed by Developer within the Property shall be separated by a reasonable distance from other utility lines and facilities to prevent damage or conflicts in the event of repairs or maintenance.

8. Determination of Amount of Developer Advances. The actual cost of constructing and installing the Facilities described in paragraph 1 above and all amounts paid by Developer pursuant to paragraph 6 above shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9, below. Developer shall provide Utility with a written statement setting forth in detail Developer's actual costs of construction within ten (10) business days following receipt of Utility's notice of acceptance of the Facilities, together with copies of all invoices, bills, statements and other documentation evidencing the cost of construction. The costs of any Corrective Action, as defined in paragraph 4 above, the costs of curing any defects arising during the warranty period, as provided herein, and the costs of any unreasonable overtime incurred in the construction of the Facilities shall not be included in the actual cost of constructing and installing the Facilities, and shall not be subject to refund by Utility hereunder.

9. Refunds of Advances to Developer. Following the District's acquisition of the Facilities pursuant to paragraph 5(a) hereinabove, Utility shall refund annually to Developer an amount equal to fifteen percent (15%) of the gross annual operating revenues from water sales to bona fide customers of Utility within the Property. Such refunds shall be paid by Utility on or before August 31 of each calendar year for the preceding July 1 to June 30 period, commencing in the fifth calendar year immediately following the initiation of water utility service to the first customer within the Property by Company, continuing thereafter in each succeeding calendar year for a total of twenty (25) years. No interest shall accrue or be payable on the amounts to be refunded for the Facilities hereunder, and any unpaid balance remaining at the end of such twenty-five year period shall become a non-refundable contribution in aid of construction to Utility and be recorded as such in the Utility's books and records of account. In no event shall the total amount of the refunds paid by Utility pursuant to this Agreement exceed the total amount of all refundable advances paid by Developer in connection with the construction of the Facilities.

14. Right of Assignment. Developer may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility prior to the effective date of assignment and that the assignee agrees in writing to fully perform Developer's obligations hereunder and to be bound by this Agreement.

15. Condemnation or Sale of Utility. In the event of the condemnation or sale of the Facilities, Utility shall promptly pay to Developer any unrefunded portion of Developer's advances in aid of construction. Payment by Utility shall be made on or before thirty (30) days from the date on which Utility receives payment.

First Amendment to MXA: Provisions amending Sections 1 – 9 or 14 – 15 of MXA

1. Amendment to Agreement.

(a) Off-Site Facilities. Paragraph 1(a) of the Agreement is amended to provide that the "Facilities" include two production wells that have been installed and constructed by Developer and are described as Production Well 3 and Production Well 2 in that Well Agreement to be executed by Company, Developer and Talking Rock Golf, L.L.C. concurrently with the execution of this Agreement (the "Well Agreement"). A Revised Exhibit "C" reflecting the actual costs of the two production wells is attached hereto and incorporated herein by this reference.

(b) Utility's Use of the Facilities. Paragraph 1(b) of the Agreement is amended to provide that Company covenants and agrees that Company shall use and operate the production wells

installed and constructed by Developer and transferred to Company pursuant to the Well Agreement only in accordance with the use restrictions contained in the Well Agreement and the conditions and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona, pursuant to which Developer's affiliate acquired the location of the production wells.

(c) Transfer of Ownership. Paragraph 5(a) of the Agreement is amended to provide that, pursuant to the Well Agreement, (i) immediately after the approval of this First Amendment by the Commission or its staff, Developer will transfer and convey Production Well 3 to the Company, via Bill of Sale in form attached to the Well Agreement; and (ii) on or before the date that the Company provides water service to the 800th single-family residence at the Property, Developer's affiliate, Talking Rock Golf, will transfer and convey Production Well 2 to the Company, via Bill of Sale in form attached to the Well Agreement. All other Facilities shall be conveyed in accordance with the terms of the Agreement.

(d) Determination of Amount of Developer Advances. Paragraph 8 of the Agreement is amended to provide that the actual costs of Production Well 3 and Production Well 2, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances installed and constructed by Developer and transferred and conveyed by Developer or by Talking Rock Golf to Company, shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9 of the Agreement.